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ABSTRACT

This document reports the results of the National Capital Outlay Project, the purposes of which were (1) to investigate the legal basis, procedures, and practices utilized by the 50 States in providing funds for public school construction and related debt service; and (2) to generate a series of capital outlay finance models that States could use in allocating loans or grants for construction of public elementary and secondary schools. The following topics are discussed: postwar financing of public school facilities, public school construction finance trends, public school construction and the economy, State and local provisions for financing public school facilities, the Federal role in school finance, and alternative programs for financing public schools. (Author/LLR)

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financing public elementary and secondary school facilities in the united states

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FINANCING PUBLIC ELEMENTARY AND SECONDARY SCHOOL FACILITIES IN THE UNITED STATES

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FOREWORD

The National Capital Outlay Project, a special study of the National Educational Finance Project, was undertaken on April 1, 1969. The research project was funded pursuant to provisions of Title V Section 505 of Public Law 89-10, the Elementary and Secondary Education Act. The contract was between the Florida State Department of Education and the School of Education, Indiana University. Responsibility for the capital outlay research study was assumed by the Bureau of Surveys and Administrative Studies of the Indiana University School of Education.

The general purpose of the National Capital Outlay Project was to investigate the legal basis, procedures and practices utilized by the 50 states in providing funds for public school construction and related debt service. A specific purpose was the generation of a series of capital outlay finance models which could be used by the states in allocating loans or grants for construction of public elementary and secondary schools.

Among researchers from other universities and public school systems who participated in the project were:

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We extend our sincere appreciation to these colleagues who made field trips to the states, participated in workshops, and organized and prepared materials for the project. We also wish to thank economists from Indiana State University, Philip G. Bibo, Woodrow Wilson Creason, and Duane L. Sorensen, who supplied economic data and projections.

We join the project writers in thanking Mrs. Juanita Coyle, who organized and prepared the materials, working papers and the final published report.

W. Monfort Barr
K. Forbis Jordan

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CHAPTER I

POSTWAR FINANCING OF PUBLIC SCHOOL FACILITIES

The quarter of a century since World War II has seen an unprecedented increase in construction of public elementary and secondary school facilities, an increase which has far exceeded the school building boom of the 1920's. Classrooms completed through the decade ending in 1967-68 totaled 697,646, an annual average of nearly 70,000 rooms, but a deficit of 519,300 remained according to a 1968 study by the Office of Education.[1]

A backlog of needed school construction accumulated during the depression of the 1930's and during the years of World War II. Antiquated and obsolete school facilities which normally would have been replaced were still in use as the nation faced a period of enrollment increases.

Public school enrollment increased from 25 million in 1948-49 to 46 million in 1968-69. Major enrollment increases had occurred and changing educational programs also had increased both space and equipment needs. In recent years early childhood education programs, increased laboratory science offerings, foreign language laboratory needs, education of the handicapped, compensatory education for the disadvantaged, and vocational, technical, and adult education have required more square feet per pupil, more special equipment and hardware, and more complex arrangement of facilities than was customary in former years.

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[1] National Center for School Statistics, United States Office of Education, Projections of Educational Statistics to 1977-78, Government Printing Office, Washington, D. C., 1968, p. 87.

Task Force on Public School Facilities Needs, Office of Education, Projections of Public School Facilities Needs, 1968-69 Through 1972-73, Congressional Record, July 18, 1968, no. 124.

Various other conditions have also contributed to the expanding need for school facilities. Local school district reorganization has resulted in the need for replacement of small, uneconomical, and educationally inadequate school buildings throughout the nation. Migration from rural to urban and suburban areas has had a major impact on the need for school facilities, on their location, and on their size.

Nonpublic schools are no longer financially able to house and educate the increasing number who seek admission. A recent study by the National Catholic Education Association revealed that Catholic parochial schools will enroll fewer pupils in 1969-70 than at any time in recent years, an estimated ten percent fewer than in 1967-68. A bid for tax funds in support of private schools was waged in 1969 in at least 26 states. The strong resistance in many states to the use of tax funds by nonpublic schools has resulted, according to the study, in limited enrollment, consolidation or closing of from 200 to 400 schools in one year, and a corresponding increase in public school operating costs and school facilities needs.[2]

Provision of school facilities in urban areas has been affected by the residential decline in the inner city, civil rights problems, existence of school buildings in illogical locations, urban renewal, and difficulties encountered in locating suitable sites for new buildings at a reasonable cost.

The decreased purchasing power of the dollar has further complicated the problem of providing elementary and secondary school facilities. Provision of sites, labor, building materials and equipment have each been affected by postwar inflation.

Enrollment increases, backlog of needed construction, curricular innovations, social change, and migration have played a significant part in the changing need for public school facilities while inflation was resulting in ever increasing costs.

In an attempt to meet public school facility needs, school capital outlay in the nation increased from $1.0 billion in 1948-49 to an estimated $4.7 billion in 1968-69. Total debt for public school facilities in 1968-69 exceeded $30 billion and annual outlay for interest exceeded $1 billion. During the years following World War II, current expenditures for public elementary and secondary schools increased from $4.2 billion in 1948-49 to $28.2 billion in 1968-69.[3] Fiscal policy has generally favored pay-as-you-go financing of the operation of public schools, but has encouraged long-term indebtedness for provision of funds for sites, facilities, and equipment.

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[2] United Press International release, August 23, 1969.

Prior to World War II bond issues had been the principal method of providing funds for school construction and heavy reliance had been placed on property tax revenues as the source of funds for debt retirement and interest payments. Only a few states, Delaware and New York in particular, had made any significant attempts to provide funds for school construction or debt service from state non-property tax sources. In fact, many states were at that time relying on property taxation as a source of state tax revenues.

Economic conditions in 1945 were conducive to shifts in state fiscal policy. Many state budgets were in a healthy condition following a lengthy moratorium on public construction. State and local debt had been reduced and a number of states had regained a substantial leeway for state and local borrowing. These conditions were conducive to shifts in state policy regarding appropriate methods of funding public school construction.

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[3] U. S. Office of Education, Digest of Educational Statistics, 1969, Washington, D. C.

The need for school construction was readily apparent. State after state initiated orderly planning for school construction, spurred in part by the provisions of federal acts encouraging planning for postwar public construction. State departments of education were providing divisions for schoolhouse planning, existing district organization was being reviewed, and state and local fiscal policy pertinent to funding construction was reassessed. State grants and loan funds were initiated; school building authorities were being formed in some states, principally as a means of avoiding restrictive debt limits.

State school codes were cluttered with provisions which served as severe deterrents to local public school construction. Many of the deterrents were constitutional and extremely difficult, in some states, to amend. Among major deterrents were school district debt limits, tax rate limits which affected local ability to provide adequate debt service, specific requirements for annual level debt service payments, use of sinking funds, and similar arbitrary restrictions which often prevented the use of a flexible approach to financing of school construction.

An Acute Problem

The problem of obtaining funds for construction of public elementary and secondary school facilities in the 1970's is acute. The meager participation of the Federal government in financing school construction reflects no recognizable policy, as has been exhibited in other public construction such as urban renewal, rural development, housing, hospitals, interstate highways, airports, and college dormitories.

State and Local. State grant or loan programs for public school construction do not exist in some states, are not geared to changing economic conditions in others, and fail to recognize or conform to state and local tax systems in others. State school codes are cluttered with obsolete deterrents to the provision of local funds for school construction. States issue bonds for school purposes in a municipal market which has insufficient funds to meet demand, often overlooking billions in retirement funds, permanent funds and other state investments which are excellent sources of loan funds for school construction.

Throughout the nation the recent practice has been that at least half of the school bond proposals are rejected by the voters. Of those approved many have been unable to find a buyer even at inflated interest rates.[4] State and local bonds are being offered in a market characterized by the highest interest rates in a hundred years, partly as a result of unprecedented demand, partly as a result of economic conditions, and certainly influenced by federal anti-inflation policy.

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[4] _New York Times_, "Financial Squeeze in Education", January 12, 1970.

Federal. Federal policy has restricted the percentage of municipals which may be held by commercial banks. The Federal Reserve Board has sharply increased the rediscount rate on loans to member banks, an anti-inflation tactic which has resulted in increased rates on new municipal bond issues and general increases in interest rates for all types of borrowing. The February 8, 1970 issue of the Washington Post predicted a shift in the tight-money policy of the Federal Reserve Board. Such a shift, if it develops, would help to loosen the straightjacket which now prevents marketing of many municipal bond issues.

The Federal government has never been deeply involved in the financing of public elementary and secondary school facilities, although as early as the time of the Treaty of Paris in 1783 the principal use of public lands for internal improvements, schools, and other common benefits of the state had been proposed. During the depression of the 1930's some Federal funds were made available for school construction. Minor sources of Federal funds for rehabilitation, equipment, and some public school construction since 1950 have been

Public Law 815, the National Defense Education Act, the Elementary and Secondary Education Act, and acts concerned with disasters, urban renewal, and civil defense. A more extensive discussion may be found in Chapter VI of this report.

No attempt to meet these grievious problems by concerted federal, state, and local action appears on the horizon. Unless some coordination between the Federal government and the states and between the states and local school districts in arriving at an effective solution of the problems mentioned above and other problems of equal import is attained, it is probable that many areas of the nation may face a moratorium on public school construction even more severe than the virtual moratorium of the 1930's and early 1940's.

An exhaustive study of capital outlay and debt service needs of local school districts is long overdue. Possibilities of cooperative action by all levels of government, the flexibility of allocation of resources both from governmental and nongovernmental sources, and exploration of possible uses of appropriated, borrowed, and invested funds should be examined.

National Educational Finance Project

The National Educational Finance Project is a cooperative arrangement funded principally pursuant to Title V, Section 505 of the Elementary and Secondary Education Act.

Involved are state departments of education, universities, and the United States Office of Education. The project is the first significant attack on the nationwide problems of financing public schools since the early 1930's. Three major objectives of the study are:

1. Identification and measurement of deviations in educational needs among children in the various districts and states.

2. Comparison of varied educational needs with the financial ability of districts and states.

3. Creation and analysis of the strength and weaknesses of alternate models of allocation of school funds.

Conventional approaches to financing education are at this time justifiably subject to attack. They have resulted in great disparities in educational opportunity among the districts and states. They are accused of ignoring the realities of economic change, existing tax systems, and available sources of revenue. Conventional approaches are often ill-adapted to the types of district organization which have emerged as a result of reorganization of school districts during the 1960's.

The National Educational Finance Project Committee consists of five nationally prominent educational finance specialists. The Advisory Committee includes representatives of the Education Commission of the States, The Advisory Commission on Intergovernmental Relations, The United States

Office of Education, and The National Education Association. The Coordinating Committee consists of the chief state school officers of nine states, Florida, Michigan, Minnesota, New Hampshire, New York, Oregon, Tennessee, Texas, and Utah. The administering state is Florida and the national headquarters of the study is located at Gainesville. The director of the project is Dr. R. L. Johns of the University of Florida.

An important aspect of the study was the inclusion of in-depth "satellite" studies conducted by researchers in universities throughout the nation. The output of the preliminary year of the National Educational Finance Project was made available to the researchers involved in the satellite research projects. In turn, the findings and conclusions of the satellite projects will be made available to the parent project for final development, testing, and analysis of alternate school finance models.

The National Capital Outlay Project

The National Capital Outlay Project, a satellite research project of the National Educational Finance Project was funded from Title V, Section 505, of the National Elementary and Secondary Education Act. The research project was the responsibility of the Bureau of Surveys and Administrative Studies, School of Education, Indiana University in close cooperation with several midwestern universities.

The project was authorized as of April 1, 1969 and was completed on May 31, 1970. The research report was published by the Bureau and is available for limited distribution. Findings, of course, will be utilized in the final phase of the National Educational Finance Project.

The project was conducted with the close cooperation of the project committee, the central staff, and the advisory committee of the National Educational Finance Project, including the Advisory Commission on Intergovernmental Relations, the United States Office of Education, the Educational Commission of the States, and The National Education Association.

Purpose. The purpose of the National Capital Outlay Project was to strengthen state departments of education by bringing together from the 50 states the legal basis, procedures, and practices utilized in providing funds for public school construction, related debt service, and rental payments. Capital outlay finance models among the states were analyzed and new models were developed to determine needs and to provide for equitable utilization of funds from all available sources.

Importance of the Project. An estimated $4.7 billion was spent during 1968-69 for public school facilities, of which about 62 percent was raised through the sale of bonds. Local school debt had increased to $30 billion by June 30, 1969; interest payments were exceeding $1 billion annually.

A 1968 United States Office of Education projection of public school classroom needs indicated that more than 145,000 new classrooms would be needed annually through 1973 in order to replace unsatisfactory classrooms, to reduce overcrowding, and to meet space needs of educational programs related to our societal needs in the 1970's.[5]

Among the 50 states, methods of providing funds for public school facilities ranged from major state participation to little or no state involvement. This facet of finance affords an opportunity for state departments of education to strengthen their participation and to assist state legislative bodies and the Congress in financing school facilities by devising viable fiscal models for distribution or advance of nonproperty tax funds which can afford significant relief to school budgetary demands on local property taxes.

Design of the Study. The research in financing public school capital outlays included several activities. As an input, the satellite project utilized, to the extent that it was available from the parent project, a synthesis of systems analysis concepts to identify educational needs, since school construction should be planned to meet identified characteristics of educational need. Funds required for construction and debt service were both analyzed to assist in the development of financial models which differentiate between the educational needs of identifiable target populations to be served.

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[5] The Congressional Record, "Projections of Public School Facilities Needs," Washington, D. C., July 18, 1968.

Among the target groups for which characteristics of educational needs were sought in the investigations of the parent project were the following:

1. Programs for regular elementary and secondary school pupils
2. Programs for early childhood education (pre first grade)
3. Programs for educating exceptional children (gifted or behaviorally disabled children)
4. Programs for compensatory education (culturally handicapped children)
5. Programs for vocational and technical education
6. Programs for junior college education
7. Programs for adult and continuing (non-college) education
8. Programs for school food services.

Each of these studies sought to: (1) identify or develop criteria for identifying the target population to be served, (2) develop accurate estimates of the number of persons in each of the target groups, (3) indicate the nature of the educational programs needed to meet the needs of each target group, i.e., how they differ from the basic educational program and (4) determine the cost differentials implicit in such programs.

The first step of the satellite project on capital outlay, April 1 through May 30, 1969, was a planning phase. The papers prepared for the National Educational Finance Project which defined the characteristics of need were carefully studied by those engaged in the satellite project. This served to orient those responsible for the satellite project with material which was germane to the overall project.

The second phase of the project, July 1 through October 31, 1969, was devoted to gathering pertinent data related to the financing of school facilities. In addition to data available from educational agencies, the research and publications of economists, public finance specialists, and political scientists were reviewed. Among sources of published research in school capital outlay were:

The Advisory Commission on Intergovernmental Relations
The Tax Journal
The Educational Commission of the States
The Political Science Quarterly
School Management
The Department of Commerce
The United States Office of Education.

Concurrent with this part of the project, the constitutional provisions, acts, rules, and regulations of the 50 states and the nation were reviewed, with emphasis on their effect on facilities construction, indebtedness, rentals, lease-rentals, lease-purchase, and debt service related to school construction. State practices which facilitated school construction as well as practices recommended in research findings were examined.

Researchers of the satellite project group investigated capital outlay finance programs in selected states which had made outstanding progress in state grant or loan programs. A major area of investigation was the examination of the economy of selected states, the education code, and the political climate which had resulted, for example, in a loan program in California, matching grants in Washington, and an authority in Georgia. Financing school facilities in a number of states involved revenues from the private sector of the economy as well as the public sector. This condition existed in at least nine states, according to recent unpublished research.

Researchers from six midwestern universities supplied consultants for this phase of the project. The data in their files, prepared for foundations, state agencies, and Congressional hearings, supplemented by personal visits to a number of states, assisted these individuals in further investigations involved in this project.

During this phase, July 1 through October 31, 1969, activities were conducted simultaneously by researchers in the six cooperating institutions. Existing or proposed financial models for allocation and distribution of state and federal funds were determined. Included were the examination of use of county, municipal, and regional (within a state) financial resources for capital outlay and attendant debt services and rentals. In the study of existing and proposed state and federal programs particular attention was given to such matters as equity and responsiveness to various educational and sociological problems and needs. This phase also included examination of any developing concepts for use of funds from the private sector of the economy as a source of funds for capital outlays.

Activities in the final phase of the project, November 1, 1969 through May 31, 1970, involved the refinement and analysis of existing financial models for provision of funds for public school facilities. The central feature of this phase was the invention and generation of new models which may be used to allocate funds for public school facilities. Alternative approaches for distributing and allocating funds from varied sources were reviewed and analyzed. Concepts and theories from public finance, political science, and corporate finance were utilized extensively in the generation of these alternative methods.

Many financial concepts which have been studied and proposed lie buried in the literature. Often researchers in disciplines other than school finance have developed material germane to financial models for measurement of need, utilization of revenue sources, and distribution of funds. Many suggestions for dealing with the fiscal problems of large cities exist. These were examined with particular emphasis on public school capital outlay. Various facets of the study included a depth review of the need for additional general classroom space, need for specialized equipment, creation of target schools, utilization of air rights, and cooperative private and public construction.

The capital outlay project included study of capital outlay and/or debt service for public elementary and secondary school facilities. Capital outlay for transportation was not included. Junior and community college capital outlay needs did not fall within the province of the study.

The output of this project was made available to the National Educational Finance Project on May 31, 1970 in order that the various capital outlay finance models might be coordinated with finance models for current operation. The staff of the National Educational Finance Project, during its final phase, will test various integrated finance models which will provide for harnessing the fiscal resources of local school districts, states, and the Federal government in order to provide adequate funds for the public school educational programs and services needed to serve the diverse educational needs of each of the states.

Methods and Arrangements. The research activities were subdivided among the professors involved, meeting as needed to coordinate their activities. Trips by each member of the group to selected states were made. Members of the satellite project staff met frequently with staff members of the National Educational Finance Project and with the Project Committee, the Advisory Committee, and the Coordinating Committee as well as with representatives of the Office of Construction Service, United States Office of Education.

Related Research

Research in the financing of school buildings has been limited, at least on a national basis. Many state studies have been conducted and many expedients have been devised. A few studies have attempted to incorporate a finance model for capital outlay with the major state support program in a state.

Cubberley's[6] monumental work which examined the apportionment of state funds defined the theory of equalization of tax support and the theory of reward by the state for outstanding local effort. The theories were developed from his examination of emerging practices and were applied in the finance programs of a number of states during the two decades following his study.

Updegraff,[7] in an early study in New York state, favored a variable-level equalized foundation support program. The plan, in effect, offered an incentive to districts which chose to spend above the foundation, since additional local expenditures were supported by the state in the same percentage as was the foundation amount. Elements of this plan were eventually utilized by Fowlkes in Wisconsin, and by Mort in Rhode Island and to a limited extent in New York.

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[6] Cubberley, Ellwood P., School Funds and their Apportionment, Teachers College, Columbia University, New York, 1905.

[7] Updegraff, Harlan, Rural School Survey of New York State: Financial Support, Ithaca, New York, 1922.

The Strayer-Haig[8] concept of a minimum foundation program stressed equalization of educational opportunity rather than equalization of the local tax burden. To this end a state should adopt an educational program which should be available to all schools in the state. A system of variable state grants should be provided to assure sufficient funds to supplement uniform local tax effort. This concept provided a rationale for distribution of state funds in contrast with sporadic efforts which had been prevalent in the first two decades of the century. Mort and his students were instrumental in developing programs of state support to implement the concept. A number of states have developed programs for cooperative support by localities and states of public school capital outlay within the framework of the foundation program concept.

A significant study, directed by Mort,[9] considered the educational finance problems of the entire nation. The National

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[8] Strayer, George D., and Haig, Robert M., The Financing of Education in the State of New York, Educational Finance Inquiry Commission, vol. 1, The MacMillan Company, New York, 1923.

[9] Mort, Paul R., et. al., State Support for Public Education. (Report of the National Survey of School Finance), Washington, D. C.: American Council on Education, 1933.

Survey of School Finance further refined the rationale for cooperative local and state financial support and developed financial programs, based on the research during the ten year period following the development of the Strayer-Haig model. Principles and criteria were developed which proved invaluable in assisting states in the development of more satisfactory state finance programs.

Mort's hypothesis that capital outlay bore a direct relationship to current expenditure was tested by Grossnickle[10] in New Jersey. During a ten year period, debt service and current expenditure bore a fixed relationship, 14 percent, in districts spending $3,000 or less per teacher. A curvilinear relationship existed in districts having higher expenditures.

Adams[11], in an early study in Kentucky, developed objective measures of capital needs of local school districts. A fixed percentage of the cost of local facilities was suggested as the measure of need. This amount, which represented depreciation over a period of approximately 33 years, was to be supported jointly by the proceeds from a uniform local tax rate and state grants sufficient to meet the remainder of the need. Several states now include some modification of this model in their state support plans.

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[10] Grossnickle, Foster E., Capital Outlay in Relation to a States' Minimum Educational Program, Bureau of Publications, Teachers College, Columbia University, New York, 1931.

[11] Adams, Jesse E., A Study in the Equalization of Educational Opportunity in Kentucky, Bulletin of the University of Kentucky, Lexington, September, 1928.

Weller[12] examined the state support programs for capital outlay in nine states. Three other states had loan funds for school construction. Delaware granted substantial amounts. Alabama and Arkansas included capital outlay in their foundation programs. New York provided funds for central school districts. Flat grants, matching grants, variable grants, and revolving loan funds were utilized. Incentives for elimination of small school districts and for property tax relief were utilized in these mid-depression programs.

Morrison[13] concluded that public schools, a state responsibility, could best be administered by the state. His fiscal corollary envisioned financial support by the state, rather than by local school districts. This concept, a number of years later, was adopted by the state of Hawaii. State funds are supplemented by federal grants for which the state qualifies.

Lindman[14] developed an equalized matching plan for state support of capital outlay in Washington. Reorganization of small districts and construction of needed facilities at permanent school centers were required. State funds ranging from 25 percent to 75 percent of requirements were provided.

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[12] Weller, Gerald L., State Equalization of Capital Outlays for Public School Building, University of Southern California Press, Los Angeles, 1940.

[13] Morrison, Henry C., School Revenue, The University Press, Chicago, 1940.

[14] Lindman, Erick L., The Development of an Equalized Matching Formula for Apportioning State Aid for Construction of School Buildings, unpublished doctoral dissertation, School of Education, University of Washington, Seattle, 1947.

During the past two decades status reports on facets of public school capital outlay financing have come from several sources. Lindman, Hutchins, Morphet and Reller[15] published a cooperative study by the Office of Education and the University of California, Berkeley, in the early 1950's. This study reviewed state provisions for financing public school capital outlay. Policies and practices of states which participated in financing public school facilities were analyzed. Sixteen major characteristics of satisfactory programs of state and local support of capital outlay were determined.

Hutchins and Deering[16] examined capital outlay financing in 1959. Local and state financing practices, procedures, and new developments were delineated. State grants, state loan funds, building authorities, and local financing were studied in detail.

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[15] Lindman, Erick L.; Hutchins, Clayton D.; Morphet, Edgar L.; and Reller, Theodore L., Financing Public School Capital Outlay Programs, United States Government Printing Office, Washington, 1951.

[16] Hutchins, Clayton D., and Deering, Elmer C., Financing Public School Facilities, U. S. Department of Health, Education, and Welfare, United States Printing Office, Washington, 1959.

Barr and Wilkerson[17] determined the trends in state participation in capital outlay support from the mid 1930's to the mid 1960's. Forty states reported loans or grants for capital outlay purposes in the years following World War II. Many of the state programs were meager and applied to only a few districts. The total amount of state funds utilized in these programs had increased to $750 million annually in 1964-65.

Barr and Garvue[18] examined the principles and practices of financing public school capital outlay in a recent publication of the National Conference of Professors of Educational Administration. State and local financing of capital outlay, revenue sources, debt theory and applicable public finance theories were analyzed.

The Research Division of the National Education Association and the Office of Education have also periodically examined and inventoried school finance programs including grants and loans for public school capital outlay and debt services. The last in this series was prepared by Thomas L. Johns in 1969.[19] This series has been extensively used by students and practitioners in the states as a means of determining changing trends in school finance programs.

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[17] Barr, W. Monfort and Wilkerson, William R., "State Participation in Financing Local Public School Facilities," Trends in Financing Education, Committee on Educational Finance, National Education Association, 1965.

[18] Barr, W. Monfort and Garvue, Robert J., "The Theory and Practice of Financing Public School Capital Outlays," Chapter IX taken from The Theory and Practice of School Finance, edited by Warren E. Gauerke, and Jack R. Childress, Rand McNally and Co., Chicago, 1967.

[19] Johns, Thomas L., Public School Finance Programs, 1968-69, Office of Education, Washington, D. C., 1969.

Federal Interest in Support of Public School Construction. Following World War II, a national inventory of school facilities needs was prepared by the U. S. Office of Education[20] pursuant to Title I of Public Law 815. Legislation for general federal support of public school capital outlay was introduced during the 1950's and early 1960's, but was not enacted. The hearings and supporting documents for this legislation give some insight into the possibility of coordinated local, state, and federal programs for support of capital outlay.

The 84th Congress considered, but did not enact, a program of federal assistance for school construction following the White House Conference on Education. Determination of school building needs and the financing of school construction were included in the hearings.[21]

The related literature on the financing of public school capital outlay often has been pragmatic, sporadic, and isolated from the most meaningful research in school finance. Little attempt has been made to incorporate the research findings of other disciplines. Concepts such as systems theory, systems analysis, and planning-programming-budgeting have apparently not been utilized or considered.

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[20] U. S. Department of Health, Education, and Welfare, Report of the Long Range Planning Phase of the School Facilities Survey, United States Government Printing Office, Washington, 1955.

[21] The Committee for the White House Conference on Education, A Report to the President, Washington, D. C., Government Printing Office, 1956.

The National Educational Finance Project is engaged in research which will utilize the theories, concepts, and techniques from school finance, public finance, economics, and systems analysis in order to derive a series of models for financing public schools in the United States. Models should be developed in the same manner for financing the capital outlays of these public schools. These models should be sufficiently flexible to permit their incorporation in or close association with the overall models for public school finance. They should also be sufficiently diverse to facilitate utilization in states and territories with a variety of tax systems and organizational patterns for public schools.

CHAPTER II

PUBLIC SCHOOL CONSTRUCTION FINANCE TRENDS

Financing construction of public school facilities was of no great concern in early years. District schools were often constructed from native materials using volunteer labor available in the district. Schoolhouse raisings were often an outstanding social event which broke the monotony of life in pioneer districts.

A hundred years ago state legislatures were enacting special laws which permitted issuance of bonds for school construction by specific school districts or municipalities. Little state concern regarding school facilities financing was shown except to protect bond purchasers, to limit amounts spent for construction, and to limit public debt. State participation in financing public school construction was a twentieth century development spurred by the growth of state minimum standards for schoolhouse construction. The most rapid development of state grant and loan plans in support of capital outlay and debt service dates from the close of World War II.

Construction Trends

United States Office of Education statistics, over the years, have reported total capital outlay and debt service costs, costs per classroom, and costs per pupil.

Although such generalized measures are of limited value, they do indicate the trends in the amount of public school construction, trends in financing capital outlay and debt service, and the average expenditure per pupil and per classroom. The fact should be stressed that the detail of variations among and within the states disappears when viewing the national picture. Significant national trends, however, do appear when examining the published data.

Amount and Sources of School Construction Funds. Table 2.1 shows the expenditures for school capital outlay during the fiscal years 1950 through 1968. Dollar amounts quadrupled during the fiscal years 1950 through 1968. The Office of Education recently estimated that 98 percent of capital outlay was used for sites, structures, and equipment while only two percent was used for school bus purchases. State reports on which the summaries were based were not conducive to further detail, except in specific states. The 50 states, during 1967-68 reported total expenditures of $4.3 billion for capital outlay. Of this amount $3.5 billion was supplied by local districts or municipalities, $512 million by the states, and $76 million by the Federal government. Quasi-governmental agencies, such as building authorities, supplied $164 million, or 3.3 percent of the total.[1]

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[1] Office of Education, Statistics of State School Systems, 1967-68, Washington, D. C., 1970.

TABLE 2.1. TOTAL CAPITAL OUTLAY AND PERCENTAGES PROVIDED BY GOVERNMENTAL AGENCIES, 1949-50 THROUGH 1967-68

(amount in millions)

School year	Total capital outlay	Agency							
		Local		State		Federal		Authorities[a]	
		Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
1949-50	$1,014	$ 950*		$ 43*		$		$ 21*	
1951-52	1,563	1,260	80.6	194	12.4	43	2.8	66	4.2
1953-54	2,200	1,711	77.7	180	8.2	105	4.8	204	9.3
1955-56	2,607	2,111	81.0	196	7.5	89	3.4	211	8.1
1957-58	3,062	2.424	79.2	327	10.7	69	2.2	242	7.9
1959-60	2,823	2,221	78.7	370	13.1	71	2.5	161	5.7
1961-62	2,987	2,445	81.9	372	12.4	45	1.5	125	4.2
1963-64	3,135	2,453	78.3	486	15.5	39	1.2	157	5.0
1965-66	3,755	3,121	83.1	416	11.1	64	1.7	154	4.1
1967-68*	4,300	3,548	82.5	512	11.9	76	1.8	164	3.3

*Estimated by staff members of the National Capital Outlay Project

(a) This information has been compiled as reported but some state reports do not clearly differentiate between authorities and other types of state and local financing.

Source: Office of Education, Statistics of State School Systems,: OE 20020, A Biennial Report, Washington, D. C.

Funds for capital outlay from other than local sources have increased since 1949-1950. Federal funds, principally distributed pursuant to the provisions of Public Law 815, reached their maximum during the Korean conflict in 1953-54 as a result of Federal activities which resulted in rapid enrollment increases in specific areas. The $105 million in Federal grants represented slightly less than five percent of public school capital outlay in that year. State funds for capital outlay approached one-half billion dollars in 1963-64, or approximately 15.5 percent of the total $3.135 billion expended in that year. Provision of funds by non-governmental authorities reached $242 million in 1957-58.

Of the total expended for capital purposes, the amount of local funds ranged from 77.7 percent in 1953-54 to 82.5 percent in 1967-68 although significant amounts were provided by other sources. Local funds, because of the tax structure of most of the 50 states, were derived principally from the sale of school building bonds which usually were retired from local property tax revenue receipts.

Bond Sales. Not only have local governments carried the major financial burden in providing public school facilities, but sale of bonds has been the dominant means by which funds were obtained. The amount of bonds sold increased from $854 million in 1949-50 to $2.917 billion in 1967-68. As shown in Table 2.2, bond sales since fiscal 1950 have provided from 61 to 86 percent of funds for capital outlay. Other sources of funds increased from $160 million in fiscal 1950 to nearly $1.8 billion in 1968-69.[2]

TABLE 2.2. RELATIONSHIP BETWEEN TOTAL CAPITAL OUTLAY AND BOND SALES, 1950-1968
(amount in millions)

School year	Capital outlay				
	Total	Amount from bond sales	Percent of total	Amount from revenues	Percent of total
1949-50	$1,014	$ 854	84.2	$ 160	15.8
1951-52	1,563	957	61.2	606	38.8
1953-54	2,200	1,667	75.6	543	24.4
1955-56	2,607	1,804	69.2	803	30.8
1957-58	3,062	2,420	79.1	642	20.9
1959-60	2,823	2,195	77.8	628	22.2
1961-62	2,987	2,568	86.0	419	14.0
1963-64	3,135	2,569	82.0	566	18.0
1965-66	3,755	2,883	76.8	872	23.2
1967-68*	4,300	2,917	67.8	1,383	32.2
1968-69*	4,700	2,904	61.8	1,796	38.2

*Estimates from the Office of Education.

Sources: Office of Education, Statistics of State School Systems. OE 20020, A Biennial Report, Washington, D. C.; Office of Education, Bond Sales for Public School Purposes, an annual publication by the National Center for Public School Statistics.

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[2] Office of Education, Bond Sales for Public School Purposes, 1967-68, Washington, D. C.

Classroom Cost. As may be seen in Table 2.3, the annual number of new classrooms constructed increased from 30,900 in 1949-50 to 75,400 in 1967-68. The annual number of classrooms constructed in the nation has remained relatively constant since 1965, except for the 1968-69 decrease to 69,700.

TABLE 2.3. TOTAL CAPITAL OUTLAY PER CLASSROOM UNIT COMPLETED, 1949 THROUGH 1969

Year	Classroom units completed	Capital outlay (amount in millions)	Average amount per classroom unit
1949-50	30,900*	$1,014	$32,815
1951-52	44,600*	1,563	35,044
1953-54	58,800*	2,200	37,414
1955-56	63,283	2,607	41,195
1957-58	72,070	3,062	42,486
1959-60	69,400	2,823	40,677
1961-62	72,089	2,987	41,434
1963-64	64,000*	3,135	48,984
1965-66	71,000	3,755	52,887
1967-68*	75,400	4,300	57,029
1968-69*	69,700	4,700	67,432

*Estimated.

Source: Office of Education, _Fall 1968 Statistics of Public Schools_, National Center for Educational Statistics, and _Statistics of State School Systems_, OE 20020, Washington, D. C.

The average expenditure per new classroom increased from $32,815 in 1949-50 to an estimated $67,432 in 1968-69.[3] The Office of Education used $63,000 per classroom unit as an estimate of school construction costs in the nation in 1969.

Construction Cost Indexes. Inflation has accounted for part of the steadily increasing capital expenditures. Labor costs, both on and off site, have increased more than 60 percent since 1959. Costs of materials have shown a modest increase of approximately one percent annually. As shown in Figure 2.1, the index of school construction costs, computed annually by School Management, increased from 100.0 in 1959 to 134.2 in 1969.[4]

As shown in Table 2.4, average costs per classroom constructed in 1968 in the nation ranged from a high of $79,151 in Pennsylvania to a low of $30,681 in Mississippi. The median cost of $49,669 was in Illinois. In the upper quartile, the average cost ranged from $79,151 in Pennsylvania to $58,434 in Vermont. In the lower-upper quartile, the average cost ranged from $58,235 in Rhode Island to $49,669 in Illinois. From a high of $49,257 in Ohio, the average

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[3] Office of Education, Statistics of State School Systems, 1967-68, and Projections of Public School Facilities Needs, Washington, D. C.

[4] "The Skyrocketing Costs of School Construction," School Management, July, 1969, pp. 38-43.

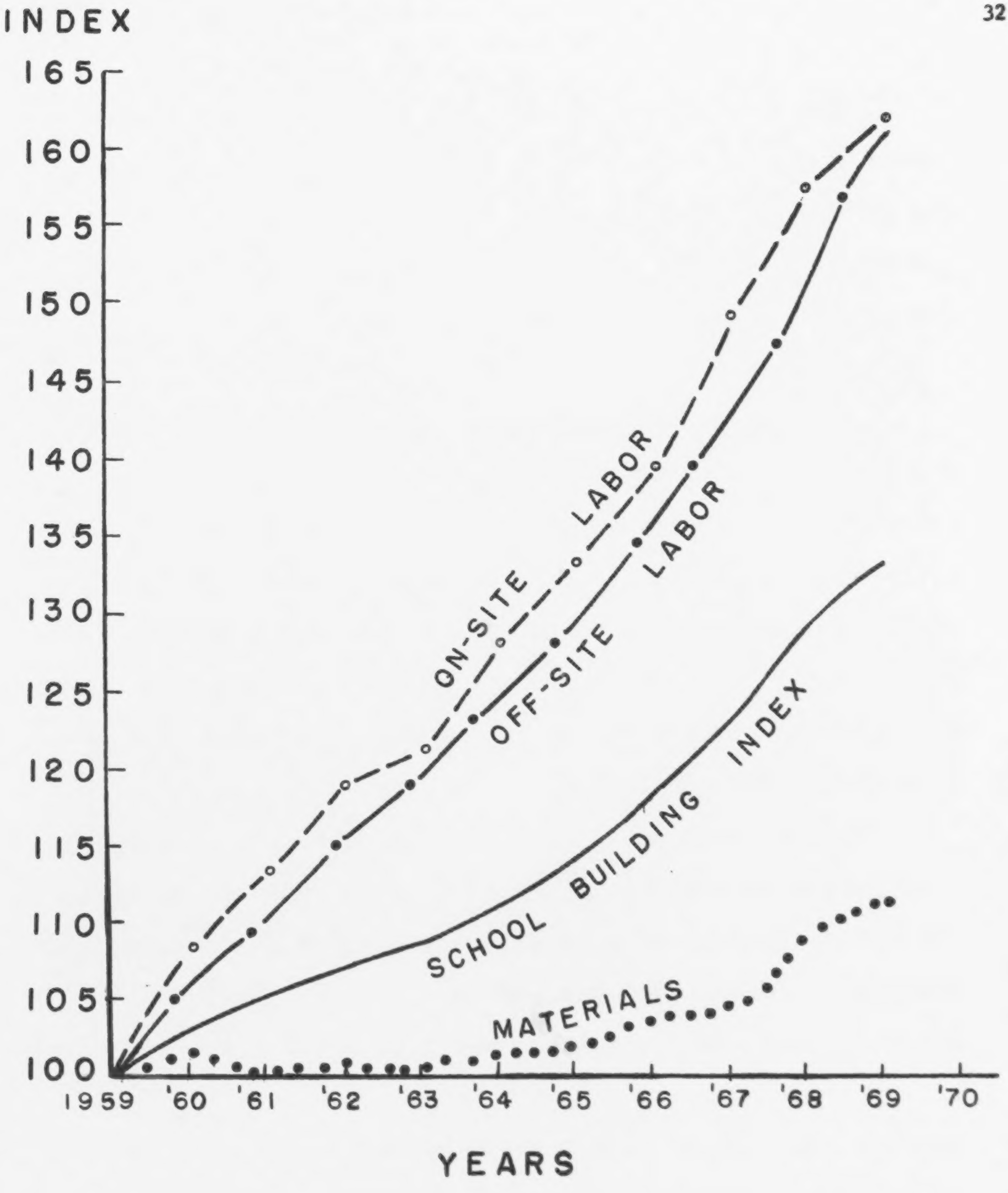

FIGURE 2.1. COST OF BUILDING INDEX IN THE UNITED STATES (1957-'59 AVERAGE = 100.0)

SOURCE SCHOOL MANAGEMENT, JULY, 1969, P. 40

* ESTIMATED 1969

cost ranged to $42,963 in Georgia in the upper-lower quartile. In the lower quartile, the average cost ranged from $42,127 in Kentucky to $30,681 in Mississippi.[5]

TABLE 2.4. DOLLARS SPENT FOR NEW AND ADDITIONAL ELEMENTARY AND SECONDARY SCHOOL CLASSROOMS, 1968 CALENDAR YEAR

Average cost per classroom	State*		
$79,151 to $58,434	Pennsylvania Alaska Maine Indiana	New York Minnesota Massachusetts New Jersey	Nevada Michigan Connecticut Vermont
$58,235 to $49,669	Rhode Island Montana Maryland Kansas	Wisconsin Delaware New Hampshire California	Tennessee Wyoming Iowa Oregon Illinois
$49,257 to $42,963	Ohio Washington Utah West Virginia	Arizona South Dakota Nebraska New Mexico	North Dakota Alabama Virginia Georgia
$42,127 to $30,681	Kentucky Colorado Texas Louisiana	Florida South Carolina Missouri North Carolina	Arkansas Idaho Oklahoma Mississippi

*Hawaii not included.

Source: "Trends: State and Regional Examination of Dollars Spent for Public School Building Over Three Years," School Management, July, 1969, pp. 62-63, 76-85.

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[5] "Trends: State and Regional Examination of Dollars Spent for Public School Building Over Three Years," School Management, July, 1969, pp. 62-63, 76-85.

Further analysis of the data upon which Table 2.4 is based indicates an absence of any type of regional pattern in the average cost of classroom construction. It should be noted that the total cost of a classroom also includes, in addition to basic construction costs, capital outlays for such items as site purchase, site development, architectural fees, legal and administrative fees, financing costs, and provision of furniture and equipment.

Possible Economies. Sharp increases in school construction costs during the past two decades have led those concerned with educational facility planning to search diligently for potential economies. School facility specialists generally agree that ordinarily no single action results in significant savings; rather, combining many opportunities throughout the planning process provides the best avenue to achieve true economy.[6]

The CEFP Guide lists several possible opportunities for economies in the planning, design, and construction process. Economy is defined here as "getting the most for the facilities dollar" in that the structure should perform its educational mission well for the foreseeable future, keep down maintenance costs during its life, and represent a good buy when built. Among the potential opportunities for savings are:

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[6] Council of Educational Facility Planners, Guide for Planning Educational Facilities, The Council, Columbus, Ohio, 1969, pp. 142-148.

a. Keep the exterior perimeter to a minimum

b. Consider the multi-story versus single-story construction methods with respect to site costs, site conditions, and the desired educational program

c. Where possible, use repetitive units of space based upon a common set of dimensions

d. Keep the ratio of gross to net assignable building space as low as possible

e. Avoid building designs which impose special problems related to the visual, audible, and thermal environments

f. Rather than fixed walls, consider relatively inexpensive partitioning systems for subdividing interior space

g. Select materials and finishes which will minimize the necessity for on-site labor and which have proven low long-term maintenance costs

h. Avoid over design of structural, mechanical and control components

i. Require complete, clear contract documents to aid contractors in making accurate costs estimates

j. Relate the bidding time to local conditions as well as to the time of year

k. Consider purchasing consortia for quantity purchase of equipment and furnishings.[7]

The systems approach to building appears to have considerable promise for achieving economy, since several of the aforementioned possibilities are incorporated into the systems concept. Basically, this approach seeks to utilize mass production techniques in the school construction field by using compatible components developed from user requirements and performance specifications. The School Construction Systems Development project in California has shown that better schools can be built by the systems approach with costs comparable to conventional school buildings.[8]

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[7] Ibid., pp. 142-148.

One approach to school planning which is frequently proposed as a money saving device is the use of standardized plans. This concept, which is based upon potential savings resulting from elimination of part of the architect's fee, has been tried in several states with only limited success. The basic weakness of the concept is that standardized plans can not be developed which will readily accommodate variations in sites, subsoil conditions, educational programs, teaching methods, location of utility connections, external environmental factors, and the like. Architects and engineers still must be employed to adapt stock plans to the conditions mentioned above.

Utilization of school buildings on a year-round basis has also been proposed as an economy measure. Adoption of this practice would theoretically reduce the need for new construction, but this concept has not been enthusiastically embraced by educators for several reasons. Since most existing buildings have not been planned for year-round utilization, problems relating to temperature control, ventilation, and maintenance programs would be formidable. Public and staff acceptance of summertime school attendance and winter vacations for some pupils and teachers might be difficult to obtain. Too, unless the concept were adopted universally in the United States, general population mobility would provide an additional difficult problem in implementing the year-round school.

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[8] American Association of School Administrators, Schools for America, The Association, Washington, D. C., 1967, pp. 141-143.

Bond Sales for School Purposes

The United States Office of Education has published an annual summary of bond sales for school purposes since 1959-60. State bond sales for schools have ranged from $16 million to $300 million during the decade. Counties, towns, and townships by 1967-68 had exceeded $500 million in bond sales for school purposes. Local district bond sales had exceeded $2 billion by 1968-69 and state or local authorities sold $452 million during the same year.[9]

More than 60 percent of school construction funds, as shown previously, has been provided by sale of bonds during recent years. Of this amount, school district sales have accounted for from 60.6 to 70.0 percent, as shown in Table 2.5. The remainder has been made by civil units, building authorities, and by the utilization in states of various methods of providing bond sale receipts to the local districts. Among these methods were state purchase of bonds from the districts, state sale of bonds for local districts, and state grants or loans from the proceeds of state bond sales.

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[9] Office of Education, Bond Sales for Public School Purposes, 1968-69, Washington, D. C.

Interest Rates. Interest rates during the last few years have increased steadily. The net interest costs of bonds for school purposes sold by states has tended to be lower than those sold by minor governmental divisions (civil or school). Net interest costs of sales of revenue bonds by building authorities, state and local, have tended to be higher than those of governmental agencies, as may be seen in Table 2.6.

Bonds Outstanding. Sale of bonds for school purposes has exceeded the annual retirement of outstanding bonds. As shown in Table 2.7, the amount of outstanding bonds, which was only $2.6 billion in 1949-50, had increased to more than $23 billion by July 1, 1966. Outstanding bonds for school purposes as of July 1, 1968 had increased to more than $26 billion. The amount of bonds outstanding would have been

TABLE 2.5. PERCENT OF TOTAL BOND SALES FOR PUBLIC SCHOOL PURPOSES BY ISSUING AGENCY, 1959-60 THROUGH 1968-69

(amount in millions)

School year	Total amount sold	Agency							
		State		Civil unit		School districts		Authorities	
		Amount	Percent of total	Amount	Percent of total	Amount	Percent of total	Amount	Percent of total
1959-60	$2,195	$182	8.3	$323	14.7	$1,520	69.2	$170	7.7
1960-61	2,357	236	10.0	375	15.9	1,565	66.4	181	7.7
1961-62	2,568	282	11.0	441	17.2	1,556	60.6	289	11.3
1962-63	2,274	130	5.7	400	17.6	1,426	62.7	318	14.0
1963-64	2,569	241	9.4	504	19.6	1,582	61.6	243	9.5
1964-65	2,823	300	10.6	498	17.6	1,715	60.8	310	11.0
1965-66	2,883	241	8.4	507	17.6	1,802	62.5	333	11.6
1966-67	3,254	145	4.5	569	17.5	2,089	64.2	451	13.9
1967-68	2,917	167	5.7	551	18.9	1,823	62.5	376	12.9
1968-69	2,904	16	.5	404	13.9	2,032	70.0	452	15.6

Source: Office of Education, National Center for Educational Statistics, Bond Sales for Public School Purposes, Washington, D. C.

TABLE 2.6. BOND SALES FOR PUBLIC SCHOOL PURPOSES AND NET INTEREST COST BY ISSUING AGENCY, 1959-60 THROUGH 1968-69

(amount in millions)

School year	Bond sales	Average net interest cost					
		All agencies	State	County	City, town and township	School district	Building authority
1959-60	$2,195	3.91	3.70	3.71	3.70	3.95	4.21
1960-61	2,357	3.52	3.56	3.43	3.26	3.53	3.87
1961-62	2,568	3.33	3.34	3.26	3.10	3.33	3.55
1962-63	2,274	3.11	2.90	2.98	2.89	3.11	3.42
1963-64	2,569	3.25	3.08	3.18	3.08	3.28	3.50
1964-65	2,823	3.25	3.18	3.18	3.14	3.26	3.42
1965-66	2,883	3.67	3.50	3.63	3.62	3.69	3.80
1966-67	3,254	4.01	3.50	3.83	3.96	4.01	4.18
1967-68	2,917	4.57	4.25	4.43	4.45	4.56	4.94
1968-69	2,904	4.88	4.02	4.64	4.70	4.83	5.32

Source: Office of Education, National Center for Educational Statistics, Bond Sales for Public School Purposes, Washington, D. C.

still greater if supply had not exceeded demand and if interest rates had not rapidly accelerated since 1965.[10]

TABLE 2.7. BONDED DEBT FOR PUBLIC SCHOOL PURPOSES, 1949-50 THROUGH 1967-68
(amount in millions)

School year	Outstanding at beginning of year	Amount of new issues	Refunding	Bond retirement	Balance at end of year
1949-50	$ 2,559	$ 776	$ 3	$ 207	$ 3,128
1951-52		958			4,456
1953-54	5,125	1,736*		362	6,704*
1955-56	7,643	1,786		518	8,911
1957-58	11,056	2,136		684	12,508
1959-60	13,900	1,900		900	14,900
1961-62	16,400	2,081	19	1,000	17,500
1963-64	20,484	2,502		1,203	21,783
1965-66	23,504	2,787	63	1,503	24,851
1967-68	26,700	2,917		1,517	28,100

*Estimated 48 states.

Source: Office of Education, Statistics of State School Systems, OE 20020, A Biennial Report, Washington, D. C.

Debt Service. Debt service includes bond retirement and payment of interest on bonds. It also includes payment of emergency and temporary loans and the interest thereon. Payment of lease and lease-purchase is also regarded as debt service in some states. Sale of bonds increases indebtedness and provides nonrevenue receipts, but often does not immediately affect expenditures. Payment of debt, particularly that incurred for school construction, is of significance to a study of school construction financing. Outstanding debt results in major expenditures for retirement, interest payments, and lease-rental contracts.

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[10] Office of Education, Statistics of State School Systems, Washington, D. C.

Office of Education summaries of debt service and lease-rental payments for alternate years are shown in Table 2.8. Total annual amounts paid have increased from $314.7 million in 1949-50 to $2.1 billion in 1965-66, the latest year for which data are available. The amounts will probably increase about $300 million annually during the early 1970's. The Department of Commerce classification of governmental expenditure, which is also followed by the Office of Education and the National Education Association, omits these significant amounts from total expenditures. Debt service, except interest, is neither a current nor a capital expenditure. Totals including debt service would introduce duplication, since the expenditure for which debt service is needed has been made in a prior year.[11]

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[11] Ibid, p. 3.

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TABLE 2.8. RETIREMENT AND INTEREST PAYMENTS ON BONDED DEBT AND PAYMENTS TO SCHOOL BUILDING AUTHORITIES, 1949-50 THROUGH 1965-66*

(amount in millions)

School year	Debt service			Rental payments to school housing authorities	Total service on debt plus rental payments
	Serial bond redemption	Interest on bonds	Total		
1949-50	$ 205.4	$100.6	$ 306.0	$ 8.7	$ 314.7
1951-52	267.6	114.3	381.9	20.9	402.8
1953-54	361.5	144.9	500.4	36.1	536.5
1955-56	462.8	190.1	652.9	27.4	680.3
1957-58	609.4	300.3	909.7	59.8	969.5
1959-60	754.3	418.7	1,173.0	99.8	1,272.8
1961-62	963.1	520.9	1,484.0	116.4	1,600.4
1963-64	1,098,3	619.6	1,717.9	150.3	1,868.2
1965-66	1,270.6	695.2	1,965.8	153.9	2,119.7

*Due to differences in accounting procedure among the states there may be insignificant omissions and duplications in some of the above items.

Source: Office of Education, Statistics of State School Systems, Washington, D. C.

Lease-rental contracts are equally difficult to classify, but in recent years have been categorized as debt service. Many states have taken the position that disbursements for debt service, lease-rentals, or lease-purchases should properly be considered when devising state support programs for school construction projects. Several state support programs have used debt service and similar payments as a measure of need which assists in indicating the fiscal impact of school construction on local school districts.

Assessed valuation of property subject to local taxes is most often used to express the ability of school districts to finance facilities. Although the property tax may be questioned as a basis of taxpaying ability, it cannot be ignored as long as it continues to provide the bulk of school funds. Objections to the property tax include its regressive nature, its questioned validity as a measure of wealth, and the prevalence of inept assessment practices.

Personal income is often suggested as a more equitable school tax base, and one that is sensitive to the trends of the nation's economy. An objection to personal income as a tax base is that it is not a stable revenue system whereas fixed cost budgets must be funded. This objection appears to be most apparent in the area of long-term debt. Also, equity cannot be assured in an income tax system made complex by the availability of tax free investments and various forms of exemptions.

The complexities of analyzing alleged inequities in the property tax and income tax systems preclude such a presentation in this report. It does appear useful, however, to examine the change in school purpose debt, the changes in property values for tax purposes, and the change in personal income over a corresponding period of time.

Table 2.9 contains data for selected states concerning school district debt, assessed property values, and personal income for the years 1957 and 1967. The nine states for which data are presented were arbitrarily selected as representative of the nine geographic regions used in the _Statistical Abstract of the United States_.

Data in column two of Table 2.9 show that school purpose long-term debt approximately doubled between 1957 and 1967. Individually the states tended to follow the national pattern, except for Michigan, which more than tripled its school district debt.

System Effectiveness. Columns four and seven of Table 2.9 are derived from an adaptation of a model used by Banfield[12] to express the effectiveness of a political system. If debt is regarded as a burden and tax base a measure of capability, then effectiveness is defined as the ratio between

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[12] Banfield, Edward C., "The Political Implications of Metropolitan Growth," _Daedalus_, vol. 90, no. 1 (Winter, 1961), p. 61.

TABLE 2.9. SCHOOL PURPOSE LONG-TERM DEBT, ASSESSED PROPERTY VALUES SUBJECT TO LOCAL TAXES, PERSONAL INCOME IN SELECTED STATES AND MEASURES OF EFFECTIVENESS FOR 1957 AND 1967

State	Long term debt (amount in millions)	Assessed property subject to tax (amount in millions)	Effectiveness (Column 3 ÷ Column 2)	Percent change in effectiveness 1957-67	Personal income (amount in millions)	Effectiveness (Column 6 ÷ Column 2)	Percent change in effectiveness 1957-67
California:							
1956-57	$ 1,698.750	$ 21,819	12.84	+17.13	$ 35,131	20.68	+20.07
1966-67	2,827.625	42,522	15.04		70,204	24.83	
Colorado:							
1956-57	174.120	3,068	17.60	-25.57	3,339	19.19	- .36
1966-67	323.818	4,232	13.07		6,191	19.12	
Connecticut:							
1956-57	219.300	6,634	30.25	+ 8.06	6,352	28.96	- 5.59
1966-67	424.605	13,881	32.69		11,609	27.34	
Minnesota:							
1956-57	315.760	2,009	63.62	-48.48	6,145	19.46	-25.28
1966-67	767.874	2,517	32.78		11,162	14.54	
Mississippi:							
1956-57	71.356	1,006	14.10	-19.01	2,093	29.33	+13.43
1966-67	133.842	1,528	11.42		4,453	33.27	
New York:							
1956-57	1,641.158	35,287	21.50	-22.19	40,954	24.95	- 9.66
1966-67	3,058.135	51,161	16.73		68,916	22.54	
Florida:							
1956-57	203.279	4,530	22.30	+197.76	7,522	37.00	+19.73
1966-67	386.002	25,629	66.40		17,101	44.30	

TABLE 2.9 (Continued)

State	Long term debt (amount in millions)	Assessed property subject to tax (amount in millions)	Effectiveness (Column 3 ÷ Column 2)	Percent change in effectiveness 1957-67	Personal income (amount in millions)	Effectiveness (Column 6 ÷ Column 2)	Percent change in effectiveness 1957-67
Michigan:							
1956-57	$ 496.887	$ 14,531	29.92	-54.85	$ 16,706	33.62	-42.83
1966-67	1,516.540	20,488	13.51		29,151	19.22	
Texas:							
1956-57	847.935	10,553	12.45	-25.70	16,364	19.30	-12.64
1966-67	1,769.211	16,366	9.25		29,822	16.86	
United States:							
1956-57	12,487.532	272,444	21.82	-11.00	345,272	27.65	- 9.29
1966-67	24,926.612	484,057	19.42		625,068	25.08	

Sources: *Statistical Abstracts of the United States*, 1957 and 1967.

U. S. Department of Commerce, Bureau of the Census, *Compendium of Government Finances*, 1957, table 39; 1967, tables 40 and 48.

U. S. Department of Commerce, Bureau of the Census, *Taxable Property Values*, 1957, table 2; 1967, table 2.

capabilities and burdens. Column four shows that of the nine states listed only California, Connecticut, and Florida had sufficient increases in assessed property for taxes from 1957 to 1967 to increase the effectiveness. The largest loss in effectiveness occurred in Michigan.

When personal income changes are related to debt changes, only California, Mississippi, and Florida managed to improve their effectiveness ratio, as shown in column seven. Again, Michigan shows the greatest loss in the income-based effectiveness measure but the loss is notably less than in the assessed property base system.

Table 2.9 shows that only Connecticut and Florida increased more in effectiveness under either tax base system, but losses tended to be at a more rapid rate in the property system than in the income system as shown in columns five and eight. If either assessed property or personal income changed in exact ratio to the burden (debt), the rate of change in columns seven and eight would be zero; that is, capability would be responding perfectly to burden.

An obvious weakness in drawing conclusions about the effectiveness of a tax base is the danger of spurious correlation. However, it seems reasonable to conclude that the income tax in most states is a more effective base for school district debt than is a property tax base. There is also strong evidence that assessed property values do adjust with the economy although somewhat more slowly than does personal income.

School district debt has elements of stability and is contracted on the basis of an existing economy. It seems advisable to devise a revenue system for supporting debt that incorporates both the stability of the property-based tax and the responsiveness of the income-based tax.

Relationships of Capital Outlay and Debt Service to Total Public School Expenditures

States having grant or loan programs for capital outlay and/or for debt service and having lease-rental programs often have sought an objective measure of the fiscal effects of local school construction. Cost of approved construction projects, depreciation of school facilities, and expenditures for debt service, lease payments, and rentals have each been used in various states, as discussed in Chapter V of this report.

Relationships between school capital outlay, debt service, and total school expenditures in the nation may be seen in Table 2.10. Total public school expenditures increased from $5.8 billion in 1949-50 to an estimated $40.6 billion in 1969-70. Expenditures for capital outlay have not increased as rapidly during the two decades; the increase

TABLE 2.10. COMPARISON OF TOTAL SCHOOL EXPENDITURES TO CAPITAL OUTLAY AND DEBT SERVICE, 1949-50 THROUGH 1969-70

(amount in millions)

School year	Total school expenditures	Total capital outlay	Total debt service	Total capital outlay and debt service
1949-50	$ 5,840	$1,014	$ 306[a]	$1,320
1951-52	7,371	1,563	382[a]	1,945
1953-54	9,232	2,200	506[b]	2,706
1955-56	11,181	2,607	653[c]	3,260
1957-58	13,569	3,062	910[c]	3,972
1959-60	15,613	2,823	1,273[d]	4,096
1961-62	18,338	2,987	1,600[d]	4,587
1963-64	21,325	3,135	1,868[d]	5,003
1965-66	26,248	3,755	2,120[d]	5,875
1967-68	31,918	4,300	2,500[d]	6,800
1969-70	40,600	4,900	3,000[d]	7,900

[a] Interest plus payment of bonds from current funds and sinking funds.

[b] Redemption of serial bonds plus redemption of bonds from sinking funds plus interest on bonds from current funds plus interest on bonds from sinking funds.

[c] Serial bond redemption plus interest on bonds. (No sinking fund)

[d] Non-bonded debt service, sinking fund and other debt service eliminated.

Source: Office of Education, Statistics of State School Systems, OE 20020, A Biennial Report, Washington, D. C.

was from $1.0 billion in 1949-50 to an estimated $4.9 billion in 1969-70. Debt service for public schools increased from $306 million in 1949-50 to an estimated $3.0 billion in 1969-70, since the amount of school debt outstanding has constantly increased. Rising interest rates in recent years have also tended to increase the amount of debt service.

As shown in Table 2.11, the ratio of capital outlay to total expenditure has been decreasing; the ratio of debt service to total expenditure increased during the 1950's and has become stable during the 1960's; the combined expenditure for capital outlay and debt service, when compared with total expenditure, has been more stable than either of the components.

Capital outlay, expressed as a percentage of total expenditures, increased through fiscal 1954 to 23.8 percent, but has declined since that time to an estimated 12.1 percent in 1969-70.

Expenditures for debt service and lease-rental payments have steadily increased and will continue to rise since school indebtedness is at an all time high. The ratio of debt service and lease-rental payments to total expenditures, as reported by the Office of Education, increased from 5.2 in fiscal 1950 to 8.1 in fiscal 1960.

Disbursements for capital outlay, debt service, and lease-rental payments, expressed as a percent of total school

TABLE 2.11. COMPARISON OF TOTAL SCHOOL EXPENDITURES TO CAPITAL OUTLAY AND DEBT SERVICE, 1949-50 THROUGH 1969-70

School year	Total expenditures all schools (amount in millions)	Percent of total expenditures		
		Capital outlay	Debt service	Capital outlay and debt service
1949-50	5,840	17.4	5.2	22.6
1951-52	7,371	21.2	5.1	26.3
1953-54	9,232	23.8	5.5	29.3
1955-56	11,181	23.3	5.8	29.1
1957-58	13,569	22.5	6.7	29.2
1959-60	15,613	18.1	8.1	26.2
1961-62	18,338	16.3	8.7	25.0
1963-64	21,325	14.7	8.8	23.5
1965-66	26,248	14.3	8.1	22.4
1967-68*	31,918	13.5	7.8	21.3
1969-70*	40,600	12.1	7.3	19.4

*Estimated.

Source: Office of Education, *Statistics of State School Systems*, OE 20020, A Biennial Report, Washington, D. C.

expenditures, increased from 22.6 in 1949-50 to 29.3 in the early 50's, but gradually declined to 19.4 during the 1960's. The sum of these disbursements is a better indicator of the fiscal impact of public school construction as related to total expenditures than is either capital outlay or debt service considered separately.

The variations in the above statistics, as current expenditures and other costs constantly increase, indicate that such ratios leave something to be desired as objective measures. There appear to be no fixed relationships between expenditures for school construction in the nation and total school expenditures. If the Federal or state governments utilize such a relationship for financial programs in support of school construction, an annual determination of the relationship within each state should be made.

Per Pupil Measures. State support programs often utilize per pupil or per classroom measures of need. Nationally, capital outlay per pupil has ranged from $40.38 in 1949-50 to $96.66 in 1967-68. Per pupil expenditures for debt service (redemption of serial bonds and interest payments thereon) rapidly increased from $12.53 per pupil enrolled to $53.95 in 1967-68. Bond sales per pupil have also steadily increased since 1950, as shown in Table 2.12.

We must conclude that nationally there is no fixed relationship between total school expenditures and capital outlay, bond sales, debt service and similar indicators of the financial impact of school construction. Per pupil expenditures for capital outlay, bond sales, and debt service also have no fixed relationships to total school expenditures.

TABLE 2.12. PER PUPIL CAPITAL OUTLAY AND DEBT SERVICE, 1949-50 THROUGH 1967-68*

School year	Per pupil amounts for Capital outlay	Debt service	Bond sales
1949-50	$40.38	$12.53	$34.01
1951-52	58.84	15.16	36.03
1953-54	76.29	18.61	57.81
1955-56	83.66	21.83	57.89
1957-58	91.33	28.92	72.18
1959-60	78.26	35.27	60.83
1961-62	78.09	41.84	67.13
1963-64	76.42	45.53	62.62
1965-66	87.66	49.48	67.30
1967-68	96.66	53.95	65.57

*Computed by the staff of the National Capital Outlay Project.

Sources: Office of Education, National Center for Educational Statistics, Statistics of State School Systems, and Bond Sales for Public School Purposes, Washington, D. C.

Examination of detailed data for specific states shows the same lack of definitive relationship between indicators of the financial impact of public school construction and other financial indicators. Recent examination of such indicators within specific states shows the same lack of relationships in the financial data for local districts.

Expenditures for capital outlay, debt service, and lease-rental have been successfully used as measures of need in the state support and loan programs for school construction in a number of states; among these are Georgia, Florida, Indiana, Kentucky, and New York, as may be seen in Appendix A of this report. Such direct measures are preferable to arbitrary measures based on average daily membership, current school expenditures, or total school expenditures. Need measures, having been logically determined, can, of course, then be converted to per pupil or instructional unit amounts for use in state support formulas.

Projections of Needed Public School Construction

Public school construction needs result from a variety of conditions. Many needs, although recognized, remain unmet. Consequently a backlog of needed construction constantly faces the nation. In recent years the problem of housing increased numbers of public school pupils has confronted communities in every state and has been attacked with varying degrees of success. Concentrated effort toward providing space for increasing enrollments often has taken precedence over the need for replacement of physically, technologically, and educationally obsolete facilities.

Broadening the content and scope of educational programs has taken place throughout the nation, but the space needs for these programs frequently have not been determined realistically. The Federal government has granted some funds for the provision of vocational classrooms and equipment. Some state governments have allocated building funds for special and vocational education. Other educational programs generally related to the societal needs of the states and nation have had to rely on local tax sources for provision of facilities or often have been conducted in existing facilities which are ill-suited to the attainment of goals of the programs. Among these latter programs are compensatory education, preschool educational enrichment programs, and post high school educational programs.

If these programs are to operate effectively and are to contribute to our national goals, concerted Federal, state, and local attention must be given to the attendant facilities needs as well as to the provision of operating funds. As enrollment increases level off during the decade ahead, priority should be given to the possibilities of cooperative funding of facilities needs for the emerging educational programs and of utilizing the leeway resulting from the temporary hiatus in enrollment increases.

State educational agencies can provide significant leadership through the continued updating of district by district inventories of replacement, rehabilitation, and public school construction necessary to house adequately the children of the state in facilities which can provide for all dimensions of educational need. A Planning-Programing-Budgeting System approach to the determination of both facilities and operational needs should be utilized in Federal, state, and local planning.

School Age Population. No increase is anticipated during the decade in the number of children of school age 5-17. Decreases are anticipated in the number of children of ages 5-13, but corresponding increases in the number in the 14-17 age group are imminent. The projections prepared by staff members of the National Capital Outlay Project and shown in Table 2.13 were based on composites of the Series B and D population projections reported by the Bureau of the Census, Series P. 25, No. 418, March 14, 1969.[13] These data are consistent with the Series C projections, which assume a fertility rate approximating that of the mid 1960's.

Although the number of children of school age in the nation will remain stable during the decade, the number in the individual states will show variations ranging from substantial increases to significant decreases as a result of migration patterns, economic growth, and varied fertility rates.

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[13] Bureau of the Census, Current Population Reports, Series P. 25, No. 418, Washington, D. C., March 14, 1969.

TABLE 2.13. PROJECTIONS OF SCHOOL AGE POPULATION, 5 THROUGH 17, FOR THE UNITED STATES, 1970 THROUGH 1980
(amount in thousands)

Year	Estimated population		
	Ages 5-13	Ages 14-17	Ages 5-17
1970	37,108	15,928	53,036
1971	36,967	15,926	52,893
1972	36,658	16,711	53,369
1973	36,325	17,030	53,355
1974	35,955	17,332	53,287
1975	35,508	17,637	53,145
1976	35,164	17,835	52,999
1977	34,939	17,955	52,894
1978	34,869	17,949	52,818
1979*	35,008	17,854	52,862
1980*	34,976	17,923	52,899

*Computed by staff members of the National Capital Outlay Project.

Source: Office of Education, Reference, Estimates, and Projections Branch, _Projections of Educational Statistics to 1978-79_, Washington, D. C.

Data in Table 2.14 show that increasing numbers of children of school age may be anticipated in Arizona, California, Florida, and Nevada. Increases in these states from 1970 to 1980 are anticipated, ranging from 9.86 to 16.50 percent. Seven other states may record modest increases averaging less than one percent annually. The largest percentage decreases in the number of children, ages 5-17, averaging more than one percent annually, may be anticipated in Iowa, South Dakota, North Dakota, Pennsylvania and West Virginia. Decreases in enrollment of from one-half to one percent annually are anticipated in Idaho, Minnesota, Montana, Maine, Kentucky, Michigan, Nebraska, and Kansas. The remaining states may anticipate only minor enrollment fluctuations during the 1970's.

Fewer children of school age, an excess of outmigrants over inmigrants, employment opportunities, and geographical location are all factors affecting the population projections which indicate a temporary nationwide plateau in the number of school age children during the decade.

Public School Enrollment. There are several factors which may offset the gradual decline in the number of children of school age. The assumptions upon which the projections were based may change. Shifts in public school admission policies are imminent. The schools may enroll significant numbers of three and four year olds, particularly the handicapped and children of low income families. Children who will be unable to enroll in nonpublic schools will attend public schools. The holding power of the public schools at the secondary level should increase as vocational and technical education becomes more generally available.[14]

TABLE 2.14. ESTIMATED POPULATION CHANGE, AGES 5 THROUGH 17, FROM 1970 TO 1980

Percent range	State		
+16.50 to + 5.00	Florida	California	New Mexico
	Arizona	Nevada	Alaska
+ 4.66 to + 0.26	Maryland	Colorado	Texas
	Delaware	Virginia	Georgia
	New Hampshire	Connecticut	Louisiana
	New Jersey	Utah	Wisconsin
- 0.56 to - 4.95	Arkansas	Hawaii	Vermont
	New York	South Carolina	Oklahoma
	North Carolina	Tennessee	Wyoming
	Washington	Massachusetts	Rhode Island
	Illinois	Alabama	Missouri
	Oregon	Mississippi	Indiana
			Ohio
- 5.02 to -17.04	Idaho	Kentucky	South Dakota
	Minnesota	Michigan	Pennsylvania
	Montana	Nebraska	Iowa
	Maine	Kansas	North Dakota
			West Virginia

Source: Computed by staff members of the National Capital Outlay Project from data reported by the Reference, Estimates, and Projections Branch of the Office of Education.

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[14] Johns, R. L.; Alexander, Kern; and Rossmiller, Richard, Dimensions of Educational Need, National Education Finance Project, vol. 1, Gainesville, Florida, 1969.

Those who assume that a decline in the number in the traditional school-age group (5 through 17) indicates a corresponding decline in the enrollment in public schools during the decade may well consider the implications of the number in the age group 3 through 19. The downward extension of public school enrollments to age 3 and the upward extension to include junior college is now in progress in many areas of the nation and will increasingly affect future public school enrollments. The Task Force on Projections of Public School Facilities Needs, United States Office of Education, estimated in 1968 that 3.5 million children of preschool age (ages 3 and 4) would be enrolled in public schools in 1972.[15] Enrollment projections appear in Table 2.15.

The Task Force also estimated the number in other special groups who would be enrolled in public schools in 1972. The number of disadvantaged from homes having an income of less than $3,000 annually and from families receiving assistance for dependent children was estimated at 7.9 million for 1972. Anticipated vocational enrollment was 1.5 million. The Task Force projections and the annual projections by the Office of Education[16] both indicated a stable general public school enrollment in grades K through 12 during the 1970's. Enrollment in grades K through 8 was expected to decline by about one million pupils from 1970 to 1980, a decline which would be offset by an anticipated enrollment increase of 1.7 million in grades 9 through 12.

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[15] Task Force on Public School Facilities Needs, Projections of Public School Facilities Needs, 1968-69 through 1972-73, Office of Education, Washington, D. C., May, 1968.

[16] Simon, Kenneth A., and Fullam, Marie G., Projections of Educational Statistics to 1978-1979, Office of Education, Washington, D. C., 1970.

TABLE 2.15. PROJECTED ELEMENTARY AND SECONDARY PUBLIC SCHOOL ENROLLMENT IN THE UNITED STATES, 1970 THROUGH 1980 (amount in thousands)

School year	*Grades* K-8	*Grades* 9-12	*Grades* K-12
1970-71	32,400	13,600	46,000
1971-72	32,200	14,100	46,300
1972-73	31,800	14,400	46,200
1973-74	31,500	14,800	46,300
1974-75	31,300	15,100	46,400
1975-76	31,100	15,300	46,400
1976-77	31,100	15,400	46,500
1977-78	31,200	15,500	46,700
1978-79	31,500	15,400	46,900
1979-80	31,700	15,300	47,000

Computed by staff members of the National Capital Outlay Project, based on data published by the Reference, Estimates, and Projections Branch of the Office of Education, 1969.

The projections indicate a marked change from the annual average increase of a million pupils per year which the nation recently has experienced. Examination of data for individual states and urban, suburban, and rural districts within the states indicates that classroom needs resulting from increased enrollments during the 1970's will continue to be a major problem in specific states and in specific areas within the states.

Classroom Need Projections. Data in Table 2.16 are from an unofficial memorandum prepared by the School Construction Service of the Office of Education in July, 1969.[17] The table has two salient features. The classroom needs of specific educational programs, 50.8 percent of the total, are realistically shown. Also included is an allocation to each group of a proportionate part of the backlog of 519,300 needed classrooms existing as of the fall of 1968. An assumption was made that there was no backlog of needed early childhood education classrooms, but that an annual need for 9,348 new classrooms would prevail during the decade.

The projection realistically portrays the elementary and secondary classroom needs of the nation, if space for special educational programs is to be provided and if the backlog of needed classrooms is to be eliminated. The estimated cost, assuming an average capital outlay of $63,000 per classroom unit, will average $7.8 billion annually, in 1968-69 dollars.

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[17] An unofficial memorandum by Cameron, John L.; Chase, William W.; and Fierson, Aaron M., "Subcommittee Report on Elementary and Secondary School Construction," Office of Construction Service, Office of Education, Washington, D. C., July 15, 1969.

TABLE 2.16. PROJECTED ANNUAL ELEMENTARY AND SECONDARY PUBLIC SCHOOL CLASSROOM NEEDS, 1970 THROUGH 1980

Type of educational program	Number of classrooms needed	Percent of total
Disadvantaged*	28,960	23.4
Early childhood	9,348	7.5
Handicapped	18,960	15.3
Vocational	5,680	4.6
General	60,865	49.2
Total	123,813	100.0

*Includes needs for disadvantaged three and four year olds.

Source: Adapted from Projections of Public School Facilities Needs, 1968-69 through 1972-73, Office of Education, Washington, D. C., May, 1968.

An increase in capital outlay from $4.7 billion in 1968-69 to approximately $7.8 billion during the 1970's can be accomplished only if concerted and cooperative financial effort is made at all governmental levels, if effective allocation of funds is employed, and if substantially increased current appropriations by Federal, state and local governments are made. Economic conditions in the early 1970's may preclude the use of indebtedness as the major source of school construction funds to the extent that it has been used in the past.

When capital outlay needs for the 1970's are considered, as is shown in Chapter III of this report, projections of school revenues from Federal, state and local sources will fall substantially short of projected expenditures by an annual amount ranging from $5.7 to $6.3 billion in 1968 dollars.

Alternatives for closing this estimated gap between state-local revenues and expenditures are discussed in Chapter III and the conclusion is reached that grants from the Federal and state governments offer the only feasible solution. Sources of funds and viable revenue allocation models which may be utilized in closing this gap may be found in Chapter VII, the concluding chapter of this National Capital Outlay Project report.

Measures of Need

Several recent attempts[18] have been made by state educational agencies and by Federal agencies to come to grips with definitive measures of space needs for public school facilities. In 1968 the Task Force on Public School Facilities assumed that gross needs were 70 square feet per elementary pupil and 115 square feet per secondary pupil. Using 25 elementary and secondary pupils per classroom as a desirable ratio, an elementary classroom should have a minimum of 1,350 square feet and a secondary classroom a minimum of 2,300 square feet.

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[18] "Projections of Public School Facilities Needs," Congressional Record, Proceedings and Debates of the 90th Congress, 2nd. Sess., July 18, 1968, Washington, D. C.

Classroom projections also included larger space allowances for the disadvantaged, for the handicapped, and for vocational pupils. Suggested ratios of pupils to rooms ranged from 10 to 20 for the above groups. Projected classroom needs for the years 1967-68 through 1972-73 were based on the above assumptions. The Task Force on Public School Facilities in 1969 extended these projections for an additional five year period.

Included in the projection, which was based on Bureau of the Census estimates of future population, was allowances for space needs for preschool children in the three and four year age group. An assumption was made that 30 percent would be enrolled in public schools. A further assumption was that 100 percent of the economically disadvantaged in this age group as well as those in the five year age group would or should be attending public school in full session.

A number of states have defined space needs for regular and special pupils, have devised square foot allowances per pupil for state grant or loan programs for school construction, and have determined cost allowances for construction projects financed in part by state funds. Construction cost indexes have been utilized in some state distribution formulas in an attempt to recognize the effects of inflation on school construction costs.

Several of the "satellite" projects of the National Educational Finance Project are concerned with determining the cost of programs for preschoolers, the disadvantaged, the culturally deprived, the handicapped and the adult population. Special education, vocational education, and junior colleges have current and capital financial needs which vary from those of general elementary and secondary education. The characteristics of acceptable programs, the number of individuals enrolled, and space needs are being rigorously examined. Findings of these projects must be considered in a nationwide study of school financing, since provisions must be made for inclusion of these costs in developing appropriate finance models.

Researchers suggested various ways of determining school building costs during the period from 1920 to 1950. Cost per square foot, per cubic foot, per pupil, per teacher, and per classroom were all utilized. A distinction was sometimes made between costs for elementary, secondary, and specialized facilities.

States, for purposes of state grant and loan programs, have tended to use the cost of a state approved school building project, sometimes limited to a basic amount per square foot or per pupil and often limited by exclusion of athletic facilities, administration buildings, maintenance shops, and bus garages.

Determining Need. Needs and costs for public school construction should be objectively determined. This is particularly true if cooperative financing by various levels of government is involved. State and Federal grant or loan plans, combined governmental and private funding, and intelligent long-range local finance planning can be no better than the input related to space and cost needs.

Analysis of state grant and loan programs for school construction and of the Federal Public Law 815 program indicates the predominance of the following measures of need for local elementary and secondary school construction:

1. Cost of approved construction projects
2. A uniform cost per pupil or classroom unit
3. Depreciation of a building project
4. Cost of debt service and payment of lease-rental contracts.

State support of capital outlay and debt service has continued to be the major method of state participation in financing local school building construction. Incentives for district reorganization, funds for repairs and rehabilitation, and funds for alleviation of the financial effects of disaster are utilized in a few states. The increase in the use of state and local school building authorities has resulted in recognition of expenditures for lease-rental and lease-purchase obligations as a measure of need for state support plans. The rapid reorganization of local school districts has further complicated the provision of state funds. What is equitable for the district which has assumed long-term obligations of former districts? How can equity be attained for the local district which has met its needs by using pay-as-you-go financing? What provisions shall be made for enrollment increases as rapidly growing suburban areas become a part of a district?

Another problem arises as a result of the prevalence of state loans for capital outlay. Acceptance of a state loan decreases the need for future school construction, but increases the finance burden resulting from the necessity of repayment of principal and payment of interest. Have states which rely heavily on loans solved the problem of providing needed school facilities or have they substituted another problem - an increased need for state grants for debt service? States utilizing school or local building authorities have already or soon will be faced with the same problem.

These many facets of establishing need for financial assistance for local elementary and secondary public school construction have been considered in the development of models for financing capital outlay which appear in Chapter VII.

Sources of Funds

Funds for school construction, as we have seen, are primarily the responsibility of the local school district or municipality, except in Hawaii. Local funds were supplemented in 25 states in 1969 by state grants for capital outlay or debt service. State loans for elementary and secondary school construction were significant in 14 states. State school building authorities were constructing school buildings in a few states; local building authorities were used in a few; lease-purchase or rental of facilities from commercial developers were occasionally utilized. Categorical Federal aids for school construction were available in all states, but only in limited grants to specific localities.

Local Funds. Local revenues are utilized in all states, with the exception of Hawaii. These funds may be appropriated to meet construction costs, may be reserved or accumulated to meet future construction costs, may be appropriated for retirement of bonded debt and interest thereon, for repayment of state construction loans and advances, and for payment of rental, lease-rental, and lease-purchase obligations. The flexibility in the use of local revenues for elementary and secondary school construction attests the interest of state legislatures which created the many fiscal options available to localities for meeting the financial needs of local school construction. Use of long-term indebtedness, pay-as-you-go financing, and reserve funds are the fiscal options available to local districts. Property taxation is the basic source of revenue.

State Funds. The states have not only made available several options for local financing, but have in many instances become active partners in the provision of funds for school construction. Appropriations, bond sales, state permanent funds, retirement funds, and land, grazing, and mineral rights revenues have provided resources for significant state loan plans for capital outlay in several states. At least half of the states have well defined grant programs for capital outlay. State appropriations from nonproperty tax revenues are the principal source of current funds. These may be appropriated from general or earmarked funds,or from a combination of both. Long-term state indebtedness is used in some states.

The fiscal significance of the combination of state and local provisions for utilizing appropriations in addition to bonding had resulted in the provision of approximately \$1.8 billion in appropriated funds for school construction by 1968-69. More than one-third of this amount was provided from appropriated state funds derived from sources other than property taxation.

Federal Sources. Appropriated funds, distributed as categorical grants by the Federal government, have done little to meet the national needs for elementary and secondary school construction. In this area there can be little doubt, indeed, that the Federal government is a junior partner, providing significant amounts only to individual localities having enrollment increases resulting from unusual Federal activity or having experienced an unexpected disaster. A concerted Federal-state-and local attack on the problem of providing local school facilities does not exist in 1970.

Other Sources. Quasi-governmental agencies, including state and local school building authorities have provided substantial amounts for local school construction, particularly since 1951. School building authorities utilize revenue bonds as a principal source of funds. Consequently, the municipal bond market, already flooded with state and local offerings, must be depended upon for funds. Constitutional and statutory debt limits may be bypassed by the sale of revenue bonds, but the ultimate purchaser of non-guaranteed municipal offerings exacts a tribute in the form of slightly higher interest rates.

Private sources of funds for school construction are occasionally used in a few states. Lease-contracts may be entered into with corporations, insurance companies, investment firms, and commercial groups. Limited supplies of funds are available, but the supply may be expected to increase as plans for such financing are improved upon. Commercial funds may open sources of revenue not available through the municipal market. The impacts on total construction cost of increased interest cost, possible loss of tax exemption, inclusion of profit, and possible assumption of taxes on such projects by local school districts must all be carefully studied. Indiana lease-purchase contracts are tax exempt, although construction may be cooperatively financed by public and private funds. The New York City Educational Construction Fund is a public benefit corporation (an authority) which provides for combined occupancy buildings. Air rights are leased or sold to the developer under arrangements which provide flexibility in financing. Use of non-governmental sources of school construction funds is a challenging area of finance which deserves the concentrated attention of the Congress, the state legislatures, and local governmental bodies.

CHAPTER III

PUBLIC SCHOOL CONSTRUCTION AND THE ECONOMY

The quantity and quality of public education depends primarily upon the amount of revenues derived from state and local taxation. Since other state and local governmental goods and services must be supported from the same tax sources, education must compete with other state and local governmental agencies for funds. Construction funds for schools and other local governmental agencies are derived principally from local taxation. The source which is predominantly used for school construction throughout the nation is property taxation.

State and local revenues and expenditures are highly dependent upon the national economy, upon the federal-state-local mix of revenues and expenditures, and upon the willingness and ability of the state and local sectors to grasp their problems and develop feasible solutions.

This chapter is concerned with the ability of state and local governments to provide funds for the construction of elementary and secondary public school facilities in the decade ahead. The amount needed, in 1968 dollars, is $7.8 billion annually as shown in Chapter II.

Historical Trends in State and Local Finance

Numerous fiscal problems faced the United States during the 1960's, but few were entirely new and most were simply an intensification of old difficulties. Federal officials have worried about economic growth and inflation while state and local governments have struggled, much of the time with only indifferent success, to provide the wide variety of services their citizens were demanding. This struggle is manifested by the rapid growth of state-local indebtedness and the rise in Federal grants-in-aid, as shown in Figures 3.1 and 3.4.

Frequently money has not been available where public expenditure needs were most pressing. One suggested solution for this problem has been to rebate to the states, in the form of unconditional grants, a "national dividend" which could result from the impact of economic growth on Federal tax collections. If the tax resources were available, the means for mobilizing them has often been far from obvious. State and local governments have failed to cope adequately with problems created by mushrooming communities and impoverished central cities. Taxpayers have been reluctant to protect their own welfare until urgent public needs became critical. The end result has been many deficiencies, widespread, often unrecognized, and costly to overcome.

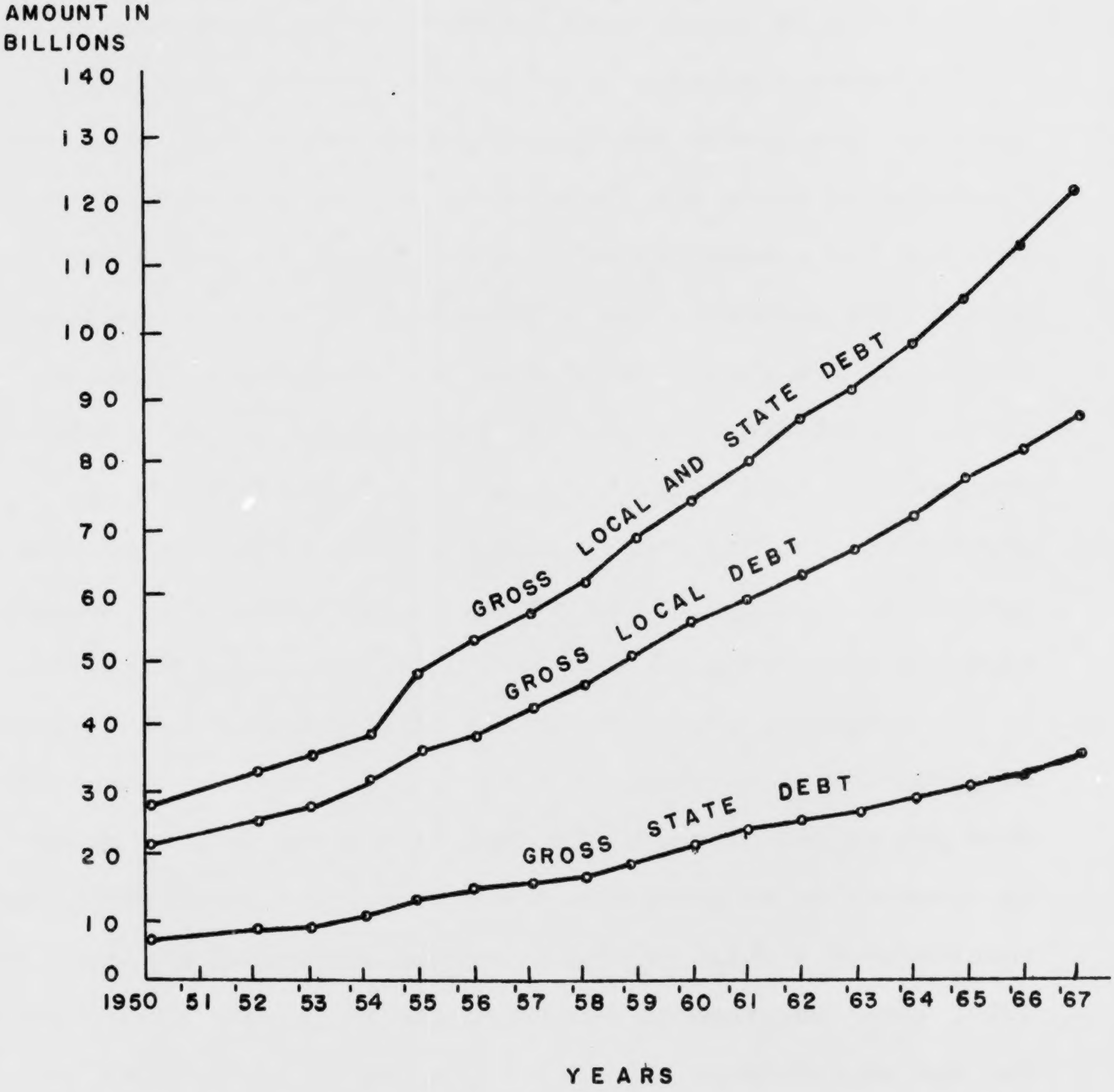

FIGURE 3.1. GROSS STATE AND LOCAL DEBT, 1950-1967

SOURCE: FACTS AND FIGURES ON GOVERNMENT FINANCE, TAX FOUNDATION, SIXTEENTH EDITION, PRENTICE-HALL

There is little need to dwell at length on the growth of government purchases of goods and services during this century. The growth has been dramatic since 1900, when the purchases of goods and services by all three levels of government was six percent of the Gross National Product. By 1967 it was 30.5 percent. One would expect to observe numerous changes in the structure of American governments (Federal, state, local) during a period of such rapid growth. Some changes have taken place, but equally impressive are the persisting long run stable relationships. The Federal fiscal system, it appears, has been able to adapt itself to changing economic conditions without losing its basic characteristics.

Comparing the three levels of government with respect to expenditures requires clearly defined terms of reference. When all public expenditures (omitting those made to other governments or to insurance trust funds) are considered, the results show a shift in the direction of centralization. In 1900, local governments accounted for 58 percent of all direct general expenditures; in 1964 (this year used in order to minimize the Vietnam War effect) the Federal government had exactly that same percentage. However, when defense and war-related expenditures are excluded, the picture is quite different. Local government expenditures are then about twice as large as those of either of the other two levels.[1] Moreover, these relative Federal-state-local shares (1/4-1/4-1/2) have remained remarkably stable during the postwar period. Compared to pre-World War II, however, this pattern, when military related expenditures are excluded, represents a definite shift in government expenditures from the local to the Federal and state levels.

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[1] Mosher, Frederick C., and Poland, Orville F., The Costs of American Governments: Facts, Trends, Myths, Dodd, Mead, and Company, pp. 44-45 and the Bureau of the Census, Government Finance in 1963-64, Washington, D. C., p. 25.

While the demand for public services at the state and local level has been increasing, state and local governments have not been idle in expanding the base and rates of old taxes or in utilizing new tax sources. As a result, state-local tax revenues have been growing at an increasing rate relative to the growth of the economy, rising from 7.3 percent of GNP in 1950 to 11.6 percent of the GNP in 1967. (See Table 3.1). By 1969, the states had produced a highly diversified tax structure, as may be seen in Table 3.2. Even though the state tax systems are varied, they have been dominated for some time by three main kinds of taxes: motor vehicle fuel and registration taxes, general sales levies, and individual and corporate income taxes. By 1970, 50 states had motor vehicle fuel taxes, 45 had general sales taxes, and 43 had individual and/or corporate income taxes.

Local tax systems, in contrast with state systems, are much less diversified, with property taxes still dominating. Reacting to several new problems, the larger cities have been especially active in the search for new revenue sources. Most of them have utilized taxes similar to those existing at higher levels of government, thereby creating additional need for coordination.

TABLE 3.1. STATE AND LOCAL EXPENDITURES AND RECEIPTS AS A PERCENT OF GROSS NATIONAL PRODUCT

Year	Gross national product (amount in billions)	State and local expenditures as percent of GNP	
		Expenditures	Receipts
1950	284.4	8.0	7.3
1951	328.4	*	*
1952	345.5	7.5	7.2
1953	364.6	7.6	7.4
1954	364.8	8.4	7.9
1955	398.0	8.4	7.8
1956	419.2	8.7	8.2
1957	441.1	9.1	8.6
1958	447.3	10.0	9.2
1959	483.7	10.1	9.3
1960	503.7	10.2	10.0
1961	520.1	10.8	10.3
1962	560.3	10.7	10.3
1963	590.5	10.9	10.6
1964	632.4	10.9	10.8
1965	684.9	10.9	10.8
1966	747.6	11.2	11.2
1967	789.7	11.8	11.6

*Not available.

Source: U. S. Department of Commerce.

TABLE 3.2. CHART OF STATE TAXES# (NOT COMMON TO ALL STATES)

State	Franchise	Income				Property			Severance	Chain Store	Admissions[17]	Tobacco	Stock Transfer, Document Recording		Sales[12]	Use
		CI	CF	BE	P	Special intangible	Bank share	Capital stock					Stock	Other		
Alabama	*	*		*	*				*	*	*	*	*13	*	*	*
Alaska	*	*		*	*				*			*				
Arizona		*		*	*				*		*	*			*	*
Arkansas	*	*			*		*		*		*	*		*	*	*
California		*	*	*	*	*			*			*			*	*
Colorado	*	*		*	*				*	*		*		*	*	*
Connecticut			*	*	*7						*16	*		*	*	*
Delaware	*	*			*		*					*		*		
District of Columbia	*		*	*1	*							*		*	*	*
Florida	*					*	*		*		*	*	*	*	*	*
Georgia	*	*			*	*	*		*		*	*		*	*	*
Hawaii	*	*		*	*						*	*		*	*	*
Idaho	*	*	*	*	*				*	*	*	*			*	*
Illinois	*		*5		*5		*	*				*		*	*	*
Indiana		*2			*	*	*		*			*			*2	*2
Iowa	*	*			*	*	*			*	*	*		*	*	*
Kansas	*	*			*	*	*	*	*		*	*		*	*	*
Kentucky	*	*			*	*	*		*		*	*		*	*	*
Louisiana	*	*			*		*		*	*	*	*			*	*
Maine	*	*4			*4		*10					*		*	*	*
Maryland	*	*			*		*			*	*	*		*	*	*
Massachusetts	*	*	*	*	*							*		*	*	*
Michigan	*	*			*	*	*		*			*		*	*	*
Minnesota		*	*	*	*				*		*	*		*	*	*
Mississippi	*	*			*		*		*	*	*	*		*	*	*
Missouri	*	*		*	*	*					*	*			*	*
Montana			*		*	*	*		*	*		*				
Nebraska	*	*	*		*		*		*		*	*		*	*	*
Nevada							*		*			*		*	*	*
New Hampshire	*				*6		*8					*		*		
New Jersey			*		*15		*				*	*		*	*	*
New Mexico	*	*			*				*			*			*	*
New York	*		*	*	*						*	*	*	*	*	*
North Carolina	*	*		*	*	*				*	*	*14		*	*	*
North Dakota		*		*	*				*		*	*			*	*
Ohio	*					*	*					*		*	*	*
Oklahoma	*	*		*	*			*	*		*	*		*	*	*
Oregon	*	*	*	*	*				*			*				
Pennsylvania	*	*	*			*	*	*				*		*	*	*
Rhode Island	*	*		*	*6						*	*		*	*	*
South Carolina	*	*		*	*					*	*	*		*	*	*
South Dakota				*		*			*		*	*		*	*	*
Tennessee	*		*	*9	*6		*		*	*	*	*		*	*	*
Texas	*						*		*	*	*	*			*	*
Utah		*	*	*	*				*		*	*			*	*
Vermont		*		*	*						*	*		*	*	*
Virginia	*	*			*	*	*		*			*			*	*
Washington	*	*3			*3				*		*	*		*	*	*
West Virginia	*	*			*	*	*		*	*	*	*		*	*	*
Wisconsin		*	*	*11	*						*	*		*	*	*
Wyoming	*						*		*		*	*			*	*

FOOTNOTES TO TABLE 3.2

#Source: State Tax Handbook, Commerce Clearing House, Inc., Chicago, Illinois, 1969.

This table presents a tabulation "by states" of the principal taxes not common to all states. Asterisks indicate imposition of the respective taxes by the various states. No attempt has been made to include taxes imposed by cities.

"Franchise" includes all annual taxes upon the exercise of general business corporation franchises, other than franchise taxes measured by net income and other than franchise taxes imposed specially upon public utilities.

"Income" relates to direct corporate net income taxes (CI) and franchise taxes measured by net income (CF), bank excise taxes measured by income (BE) and personal income taxes (P).

Under "Property," "Special Intangible" includes only those states classifying intangibles for special taxation at lower rates or valuations than other property and does not include states which purport to tax intangibles at general property tax rates.

"Severance" does not include special timber taxes.

"Admissions" includes taxes imposed under sales, occupation and license tax laws.

[1] District of Columbia: On gross earnings.

[2] Indiana: A gross income tax is also levied and must be paid by corporations if their liability under the tax is greater than their liability under the income tax.

[3] Washington: A 3 1/2% corporate and personal income tax will take effect January 1, 1972, if voters approve a constitutional amendment authorizing the tax at a November, 1970 election.

[4] Maine: The corporate income tax is effective January 1, 1969, the personal income tax July 1, 1969.

[5] Illinois: Effective August 1, 1969.

[6] New Hampshire, Rhode Island, and Tennessee: On income from intangibles only.

[7] Connecticut: Only on gains from the sale or exchange of capital assets, effective July 1, 1969, through June 30, 1971.

[8] New Hampshire: National banks only. State banks subject to tax on deposits.

[9] Tennessee: State banks only.

[10] Maine: Trust companies and national banks.

[11] Wisconsin: A direct tax on income.

[12] Sales tax states as listed above are those states imposing taxes directly on sales. Taxes measured by sales, such as occupation or license taxes, are not listed nor are gross receipts taxes.

[13] Document recording tax applies to stocks.

[14] North Carolina: Effective October 1, 1969.

[15] New Jersey: The tax is levied only on income derived from a "critical area state" (New York) by New Jersey residents and income derived from another "critical area state" (New Jersey) by New York residents.

[16] Connecticut: Effective September 1, 1969, through June 30, 1971.

[17] Taxes on admissions are included within the sales tax in several states.

State-Local Fiscal Prospects for the 1970's

How serious the fiscal problems of the Federal system are likely to be in the next ten years depends largely on the difficulties which state and local governments will face. If these problems are modest, and are handled with dispatch, the Federal government is not likely to be subjected to much strain. However, if the problems are great, or the will to solve even modest problems so weak that only halting progress is made in the state and local sectors, federalism may lose vitality during the next decade.

Forecasting in this area is a hazardous undertaking. Given far-from-adequate knowledge of the determinants of state-local expenditures and tax programs and of the interrelationships between them, the best that can be done is to work out the implications of a number of reasonable assumptions about future fiscal behavior. What emerges from this exercise is a set of "if-then," or conditional forecasts. For example, if the economy develops in a certain way and if present service levels and quality are maintained, state-local expenditures for a particular program may be expected to total $X billion in 1980. Such projections do not necessarily represent the forecaster's best estimate as to what will in fact happen. Instead they are intended as a framework for improved fiscal programming which in itself is likely to invalidate any forecast based on past experience.

Projections of state-local expenditures and revenues must be based on a set of assumptions regarding the general state of the economy during the period which is studied. The pattern of economic activity, and specifically, requirements of state and local governments are influenced by such factors as differences in population growth, mobility, and personal income of various regions. In the same manner, aggregates of state and local expenditures and revenues are dependent upon national economic conditions. Therefore, it is necessary to project the national economy over the study period to develop a base for the state and local indices. Figure 3.2 shows the trend of the Gross National Product (1958 dollars) from 1950, and the projections to 1980. These projections assume a slight increase in productivity during the 1970's, with hours worked per week remaining relatively constant. Unemployment, it is assumed, will average four percent or slightly less since the labor force will continue to become better educated and more highly skilled. It is possible that such conditions may well result in unemployment being reduced below present rates. This analysis is conducted in 1958 dollars to eliminate problems associated with changes in the price level, and does not take into consideration inflation, if any, during the 1970's.

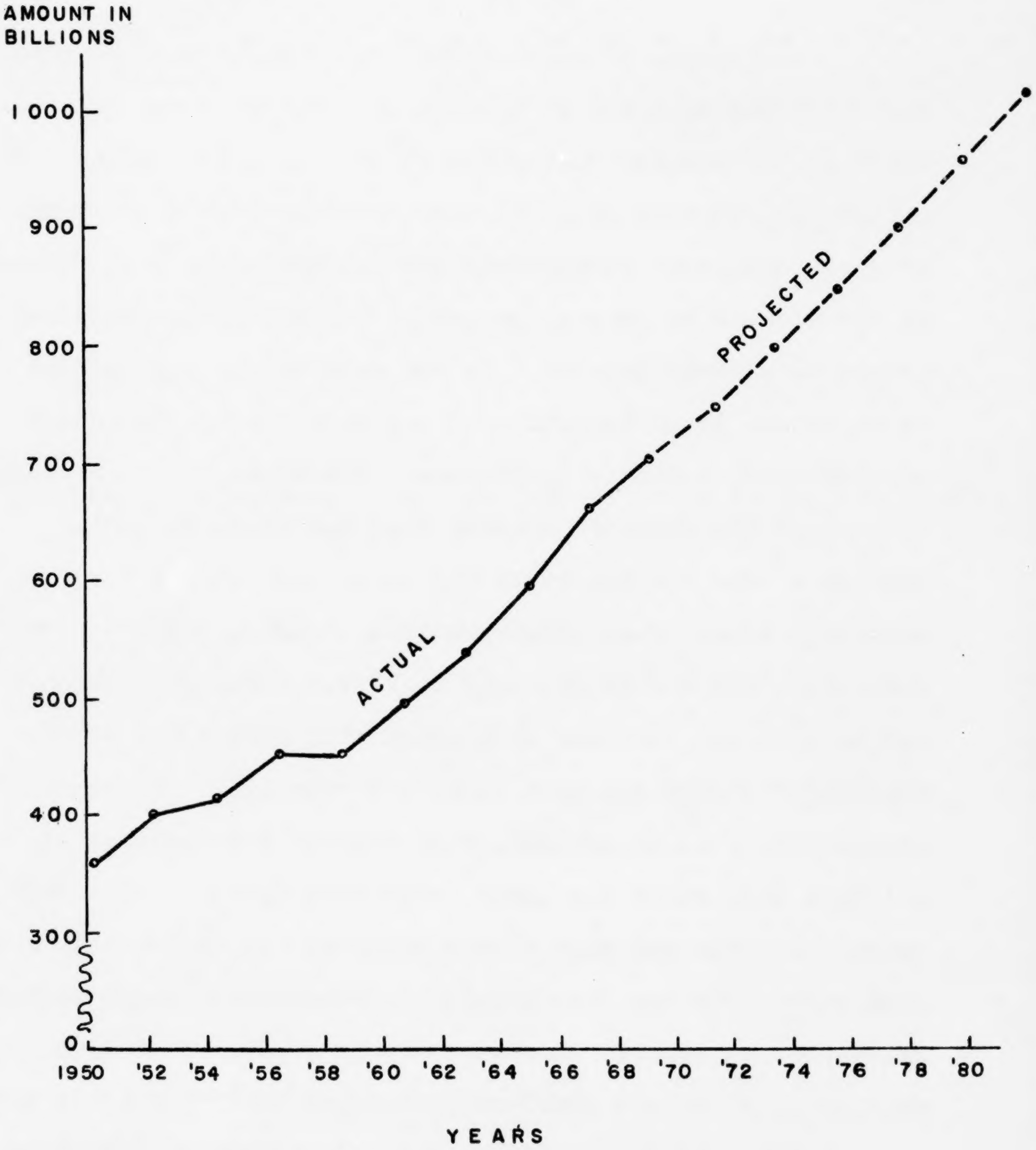

FIGURE 3.2. GROSS NATIONAL PRODUCT, 1950-1980 (1958 DOLLARS)

SOURCE: UNITED STATES DEPARTMENT OF COMMERCE

Based upon the above assumptions, the 1980 projection of GNP would be $980 billion in 1958 dollars. This is equivalent to an average growth rate in real GNP of three percent per year from 1966 to 1980. This would generate a personal income of $780 billion in 1958 dollars; assuming a population of 250 million, the per capita personal income would be $3,120 in 1958 dollars. This represents nearly an 11 percent increase in per capita real personal income over 1968.

With the above increases, pressure on state-local spending would be expected. The ratio of product dispensed by governments to the total of the economy's product is higher in richer countries than in poorer. As was noted in the early part of this chapter, this ratio has been increasing. The reasons for this rise in the ratio, with a rise in per capita income, are still not well understood. A higher degree of urbanization today may be one explanation. A German economist, Adolph Wagner, formulated a law in the latter half of the nineteenth century which asserted that the elasticity of demand for government services in relation to GNP would bring forth a demand for governmental services greater than one percent. While his data were inadequate and as yet no reasonably satisfactory analysis of historical data and of possible trends has been made, his thesis has not been refuted.

Figure 3.3 shows the trend of state and local expenditures from 1950 through 1967. These expenditures increased by $51 billion during the 17 years, totaling nearly $80 billion in 1967 (expressed in 1958 dollars). State and local revenues increased by $52 billion from 1950 through 1967, amounting to $78 billion in 1967. Of this amount, (See Figure 3.4) $13.2 billion was revenue from the Federal government in the form of grants-in-aid.

Projecting state-local expenditure and revenues to 1980 was done by means of establishing relationships between these variables and GNP. However, capital outlays for public school construction were subtracted from expenditures and Federal grants were subtracted from state and local revenues. This offers a more realistic picture of the ability of state and local governments' ability to meet the existing and projected school construction needs. The methodology used in making the estimates may be seen in Appendix B of this report.

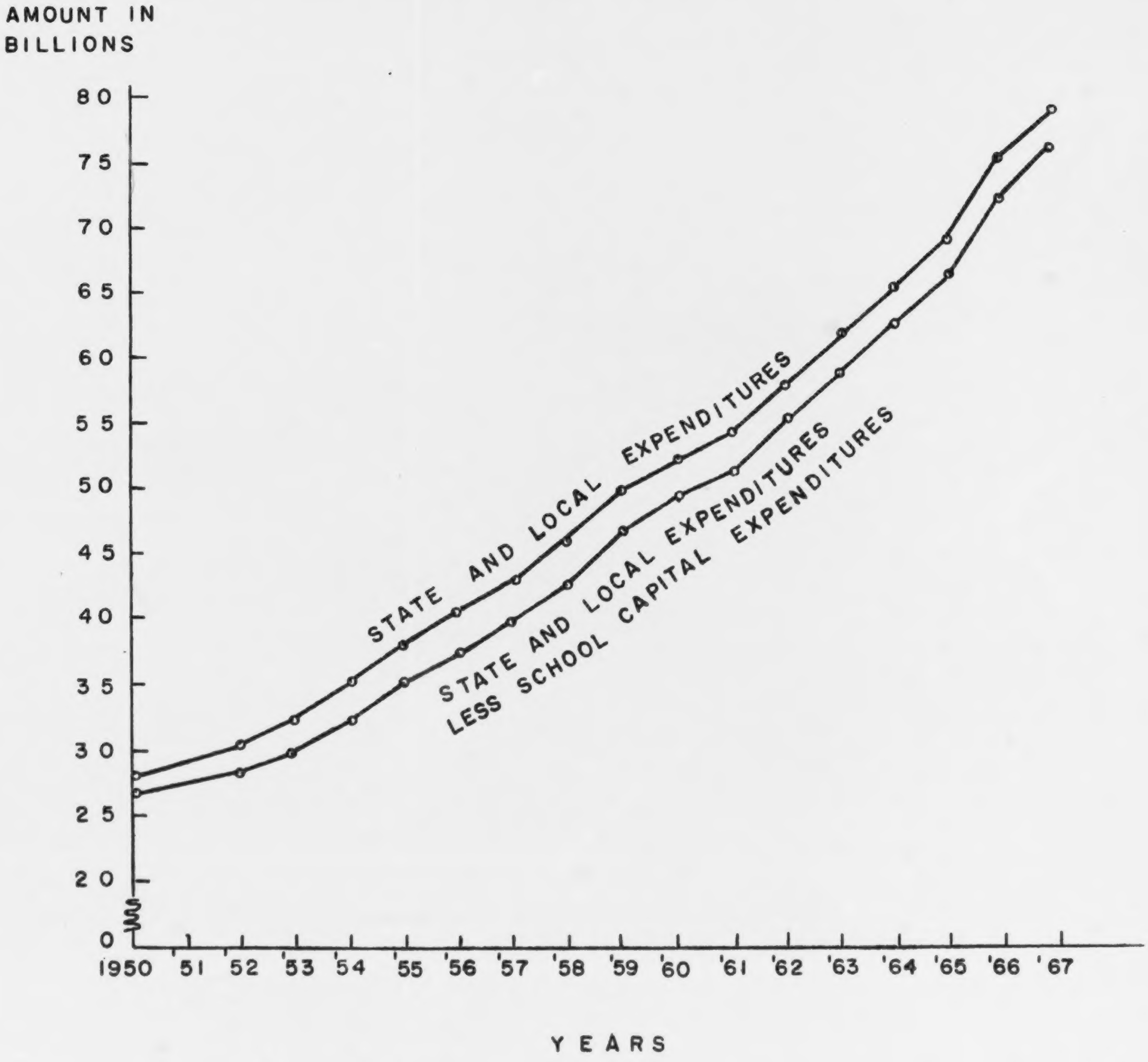

FIGURE 3.3. STATE AND LOCAL EXPENDITURES-STATE AND LOCAL EXPENDITURES LESS SCHOOL CAPITAL EXPENDITURES

SOURCE: UNITED STATES DEPARTMENT OF COMMERCE

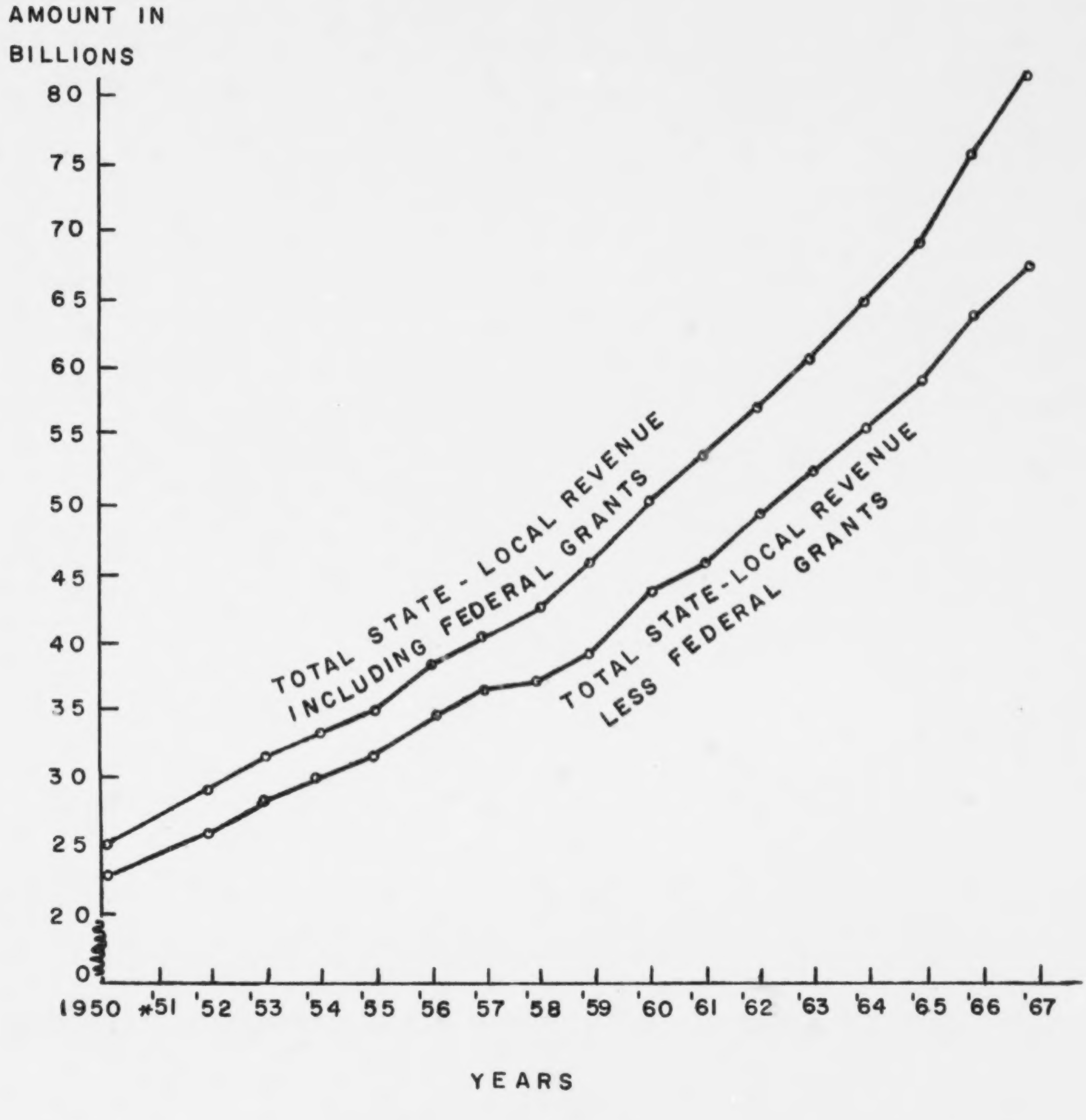

FIGURE 3.4 TOTAL STATE-LOCAL REVENUE INCLUDING FEDERAL GRANTS, 1950-1967

SOURCE: UNITED STATES DEPARTMENT OF COMMERCE

* DATA NOT AVAILABLE FOR 1951

Table 3.3 contains projections from 1970 to 1980 of state and local expenditures and revenues, Federal grants-in-aid, and anticipated deficits. State and local expenditures, excluding school capital outlays, are expected to increase from \$82.8 billion in 1970 to \$111.7 billion in 1980 - both in constant 1968 dollars. State and local revenues, excluding federal grants, will increase from \$73.4 billion to \$99.0 billion in 1980. The anticipated deficit ranges from \$9.4 billion to \$12.7 billion. After adding to the above deficit the amount of projected school construction needs (an annual \$7.8 billion in 1968 dollars) and subtracting the amount of projected Federal grants, in 1968 dollars, we arrive at a total deficit ranging from \$6.3 to \$5.7 billion in 1968 dollars. The projections of Federal grants-in-aid range from \$10.9 billion in 1970 to \$14.8 billion in constant dollars in 1980.

It must be pointed out that part of the estimated school construction outlays could be offset by the projected Federal grants to state and local governments. For this to be an accomplished fact would require a change in legislation with respect to the present distribution of grants. Currently, only specific cases (such as military impact areas) qualify for Federal grants-in-aid for school construction. In effect then, the total projected deficit shown in column 6 represents a minimum estimate of the gap between state-local revenues and expenditures.

TABLE 3.3. PROJECTED STATE AND LOCAL EXPENDITURES AND REVENUES, SCHOOL CONSTRUCTION NEEDS, FEDERAL GRANTS, AND DEFICITS, 1970 THROUGH 1980 (AMOUNT IN BILLIONS OF 1968 DOLLARS)

Year	State and local government			School construction needs	Federal grants	Total state and local deficit**
	Expenditures minus school capital outlay (1)	Revenues minus Federal grants (2)	Deficit* (3)	(4)	(5)	(6)
1970	$ 82.8	$73.4	$ 9.4	$7.8	$10.9	$6.3
1971	85.3	75.6	9.7	7.8	11.3	6.2
1972	87.9	77.9	10.0	7.8	11.6	6.2
1973	90.6	80.3	10.3	7.8	12.0	6.1
1974	93.3	82.7	10.6	7.8	12.4	6.0
1975	96.2	85.2	11.0	7.8	12.7	6.1
1976	99.1	87.8	11.3	7.8	13.1	6.0
1977	102.1	90.5	11.6	7.8	13.5	5.9
1978	105.2	93.2	12.0	7.8	14.0	5.8
1979	108.4	96.1	12.3	7.8	14.4	5.7
1980	111.7	99.0	12.7	7.8	14.8	5.7

*Column 1 minus column 2.

**Sum of columns 3 and 4 minus column 5.

Source: Projections supplied by consulting economists.

Solutions to the Fiscal Problem

There are four major ways that state and local governments can close the hiatus between expenditures and revenues: (1) state and local indebtedness can be increased; (2) state and local user charges and miscellaneous fees may be raised; (3) structural changes can be made in state and local tax systems; and (4) Federal grants-in-aid may be increased.

Today, as in the last two decades, a significant part of all state and local government expenditures in the United States is financed from borrowed funds. Financing capital outlays from current revenues has been a relatively little used alternative. State and local governments in 1968 had about $123 billion in outstanding bonded debt; the total has been growing at about $6 billion a year during the post-war period.

Borrowing by state and local governments to finance capital outlays is commonly justified on two principal grounds: (1) Major items of capital expenditures tend to arise irregularly so that they cannot conveniently be financed from current revenue sources which are relatively stable in yield from one year to the next; (2) in present-day America, with its relatively high rate of population mobility, the issue of which generation is to finance public facilities is far from unimportant. Since new public facilities will serve the community population of future years, it is argued that the taxpayers and facility-users of that future period should be expected to foot a large part of the bill.

There are, however, numerous kinds of state provisions which regulate borrowing and indebtedness of state and local governments. Three are of particular relevance to this study because of their restrictive effect on local governments which provide most of the funds to finance school construction. These are: (1) limits on the amount of outstanding local government debt in relation to the property tax base, (2) limits on property tax rates that can be levied for debt service requirements or for various purposes including debt service, and (3) requirements for specific referendum approval of proposed bond issues. One or more of these provisions applies in all states.

Projections of the contribution that state-local borrowing is likely to make to the financing of general expenditures in the 1970's is made difficult due to the uncertainty of changes in the above three restrictions on local indebtedness, but also because of other factors such as the dependence of state-local borrowing power on the market for tax-exempt securities, a market which each Federal administration since 1940 has sought to change. There is also the revolt against rising property taxes. Thus, it is unlikely that a speed up in the growth rate of state-local indebtedness will be used as a method of closing the hiatus.

State-local user charges and miscellaneous fees have amounted to an annual average of 23 percent of state-local revenue in the post war period. Attempts to expand this source of funds have met with strong resistance. In Oregon, the courts found the attempt of a local government to sell advertising space on parking meters unconstitutional. College students have been protesting vigorously over increased tuition and fees, and downtown merchants are opposed to increasing parking meter fees because of competition from shopping centers. Fees such as incorporation licenses and marriage licenses could be increased greatly without making a significant contribution to meeting the needs of the 1970's.

As mentioned above, state governments have been very energetic in enacting new taxes; local governments, while not utilizing a large number of new taxes, have increased property tax rates considerably. Between 1950 and 1967 the property tax revenue increased 260 percent. All states have motor vehicle fuel taxes, all but seven have general sales taxes, and only five have neither corporate income or personal income taxes. Thus, there is little room for securing additional revenue by adding sales or income taxes.

States are in competition with each other for industry to expand their economic base. Some states and/or local governments grant tax exempt status in order to entice a firm to locate within its area. Just as in macroeconomics, where the "whole" can be greater than its parts, so it is with states and taxation. If all states simultaneously increase taxes there would be no low tax area that could substitute for a high tax area. But this is not true when uniform actions are absent.

Even if states were willing to increase tax rates sufficiently to eradicate the deficit, they would be increasing the regressiveness of the total tax system. Looking at the tax picture since World War II, it is the regressive taxes that have increased while the progressive taxes have decreased. However, while it is possible to wipe out the deficit by structural changes in state-local tax systems, when the spill-over effects of educational benefits are taken into consideration, it may well be questioned whether this would be the optimum way of accomplishing the task.

Federal grants-in-aid are suitable as a solution for closing the growing gap between state-local expenditures and revenues. Federal revenue, because of its primary dependence on the progressive income tax, is designed to grow at a rate faster than the GNP. With present tax rates, a one percent increase in the GNP brings forth approximately a 1.6 percent increase in Federal tax receipts. Implicit with economic growth, then, is an ever expanding volume of revenue at the Federal level. In order to avoid fiscal drag there is the necessity that either more expenditures be made, taxes be reduced, or a combination of both. Grants-in-aid could assist both Federal and state-local fiscal planning. The Employment Act of 1946 sets forth the responsibility of maintaining a high level of employment with stable prices. Grants-in-aid would serve as a countercylical compensatory fiscal tool and assist state and local governments in their struggle for additional revenue sources to close their expenditure-revenue gap.

Grant-in-aid programs lend themselves to solving expenditure-revenue problems within a Federal system in that they can be simple to administer, can comply with the principal of neutrality and horizontal equality, and can enhance the Federal system of government. Automatic distribution of the federally collected revenue on an annual basis would allow state and local governments to include these funds in their fiscal plans. State and local growth and development would then be automatically tied to the growing income tax base of the nation. Fairness and neutrality under such a plan could be assured by revenue distribution on the basis of school age population and needs. All areas could be included -- urban and rural, rich and poor, agricultural and industrialized, large and small.

CHAPTER IV

LOCAL PROVISIONS FOR FINANCING PUBLIC SCHOOL FACILITIES

Historically it has been the responsibility of local school officials to finance, construct, and inspect public school facilities. Pressures which brought about increased state participation in the current operation costs of schools have not been as effective in providing state funds for school facility financing.

Local school districts have accelerated their efforts to provide financing for school facilities during the quarter of a century following World War II. State constitutions and statutes which restricted local finance programs have changed in a number of states to meet more nearly current conditions. Conventional methods of providing funds for school construction have been school bond issues and appropriation of local funds. Some states have chosen to devise alternate methods of local school facility financing while maintaining existing debt and tax limitations. Public and private authorities, to be discussed in Chapter V, and state grants and loans have been the most frequently utilized alternate methods; the net result has been an increase in funds available for public school construction.

Local funds accounted for an estimated $3.5 billion, or 82.5 percent, of the $4.3 billion allotted for public school facilities in 1967-68. This amount is more than four times as great as local school building funds provided in 1949-50.[1] Local ability to raise revenue under the existing tax structures in most states has been sorely tried in an attempt to meet these demands. Despite maximum effort in many school districts, the backlog of needed facilities has increased.

The concern of this chapter is to examine the sources and limitations of the provision of funds for public school facilities. A detailed description of state and local programs for financing school facilities in each state is included in Appendix A of this report.

Local Borrowing for Public School Facilities

Rationale for Borrowing. Traditionally elementary and secondary public school facilities have been financed with borrowed funds. The rationale for borrowing is related to the microeconomic theory of public indebtedness. This theory holds that the burden of indebtedness shifts to the future and increased tax rates are deferred; the burden of debt results in a transfer of funds from the private to the public sector at a later date. The microeconomic theory contends that borrowing and subsequent repayment at a later time is reasonable in that the user in the future will ultimately share the cost. Intergeneration equity is accomplished through borrowing and is considered a desirable outcome of public indebtedness.

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[1] Office of Education, Statistics of State School System, OE. 20020, A biennial report, Washington, D. C., 1970.

It is important to recognize the effect of major construction projects on the local economy. Employment opportunities, increased demand for materials, and the expansion of services often result during the construction of a large facility. Private enterprise receives a large share of the receipts from a local bond issue.

During an inflationary period it is reasonable to assume that borrowing will result in a saving to the taxpayer. This condition exists when the labor and material costs of construction are increasing at a rapid rate. A project delay in this case would be more costly than paying the interest on debt over a period of years. Barr and Garvue stated that an additional reason for borrowing is that it acts as a hedge against inflation.[2]

Benson summarized the rationale for borrowing as follows:

1. To defer the burden of unexpected expenditures to the future
2. To avoid sudden tax increases

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[2] Barr, W. M., and Garvue, R. J., "Financing Public School Capital Outlays," in *The Theory and Practice of School Finance*, Rand McNally and Co., Chicago, 1967, p. 254.

3. To counteract excessive discounting of future returns of social benefits.[3]

General Obligation Bonds. Discussions of revenue bonds and local and state authorities appear elsewhere in this report. The discussion of local borrowing here is confined to general obligation indebtedness.

Bonds are a form of legal paper issued by the borrower as evidence of a debt. Terms of the loan agreement specifying interest rates, payment periods, and security are included in the bond. General obligation bonds are characterized by the fact that they pledge the full faith and credit of a governmental agency as security for repayment.

It is appropriate in this report to include a brief explanation of the legal basis from which local school districts derive the authority to issue general obligation bonds. The courts have generally agreed that the plenary powers of the states with respect to public education include the power to allow school districts to incur indebtedness.[4] The weight of authority holds that the power to issue bonds does not exist unless it is granted in clear and unmistakable terms.[5]

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[3] Benson, Charles S., The Economics of Public Education, Houghton Mifflin Co., Boston, 1962, pp. 289-291.

[4] Edwards, Newton, The Courts and the Public Schools, Revised Edition, The University of Chicago Press, Chicago, 1955, p. 278.

[5] Hewitt v. Board of Education, 94 Illinois, 528.

The authority for school districts to issue bonds and the terms and conditions relevant to their issuance rests in the constitution and/or statutes of the states.

Classification of General Obligation Bonds. Serial bonds are used more than any other type of bond issue by local school districts. The distinguishing feature of the serial issue is that the bonds making up the issue mature in different years. A schedule of bond maturities plus interest may be designed to provide balanced debt service payments over the term of the issue. Serial bonds are usually retired annually or semiannually.

Serial bonds with callable clauses may be retired at the option of the seller. The callable feature may be advantageous to the local school district since increases in revenue can be used to retire the bonds early, thus saving interest costs. If interest rates fall substantially below the original rate, it may be wise to exercise the callable option and refund the outstanding bonds with a new issue.

Term bonds have lost popularity as borrowing instruments for local school governments during recent years. The principal of a term bond issue is not due until the end of the period of indebtedness. In order to accumulate revenue for the retirement of the principal, local school districts may use sinking funds. Poor management practices have made the sinking funds a questionable method of debt retirement and consequently they are not used widely at the present time.

At least 34 states specifically require the use of serial bonds for local school districts. A few states allow term bonds or sinking funds; however, no state specifically requires that term bonds be used.[6]

Characteristics of Local School Bond Issues. States are not alike in their regulation of local school bond issues. Table 4.1 shows the limits on interest rate, the limits on the term of an issue, and the limits on tax levies for debt service of school bonds.

Net interest costs for municipal bonds have skyrocketed to all-time highs in the late 1960's. State constitutional and statutory limits on net interest rates for school bonds, often set during periods of economic recession, may not be realistic in the present inflationary market. Table 4.1 shows that although a few states have no interest rate limits, the majority have tended to retain a specific limit.

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[6] "Public School Finance Programs," 1968-69 by Thomas L. Johns, Office of Education, Washington, D. C., 1969.

TABLE 4.1. STATE LIMITS ON THE INTEREST RATE, TERM, AND TAX LEVY FOR DEBT SERVICE ON SCHOOL BONDS

State*	State limit		
	Interest rate	Term of bond issue	Tax levy for debt service
Alabama	8	30	Limited
Alaska	6	No limit	Unlimited
Arizona	6	20	Unlimited
Arkansas	6	20	Unlimited
California	7	25	Unlimited
Colorado	6	25	Unlimited
Connecticut	No limit[a]	20	Unlimited
Delaware	6	25	Unlimited
Florida	7 1/2	20	Unlimited
Georgia	No limit[a]	30	Unlimited
Idaho	6	20	Unlimited
Illinois	7	20	Unlimited
Indiana	None	None	Unlimited
Iowa	6	20	Limited
Kansas	5 1/2	20	Unlimited
Kentucky	7	30	Unlimited
Louisiana	6	40	Unlimited
Maine	No limit	25[b]	Unlimited
Maryland	No limit	25[c]	Unlimited
Massachusetts	None	20	Unlimited
Michigan	6	30	Unlimited
Minnesota	7	30	Unlimited
Mississippi	6	25	Unlimited
Missouri	8	20	Unlimited
Montana	6	20	Unlimited
Nebraska	6	None	Unlimited
Nevada	7	20	Unlimited
New Hampshire	No limit	30	Unlimited
New Jersey	6[d]	20[e]	Unlimited
New Mexico	7	20	Unlimited
New York	None	30	Unlimited
North Carolina	No limit	20[f]	Unlimited
North Dakota	6	20	Unlimited
Ohio	6	23	Unlimited
Oklahoma	6	25	Unlimited

TABLE 4.1 (Continued)

State*	State limit		
	Interest rate	Term of bond issue	Tax levy for debt service
Oregon	7	30	Unlimited
Pennsylvania	7	30	Limited
Rhode Island	6	None	Unlimited
South Carolina	7	25	Unlimited
South Dakota	None	None	Unlimited
Tennessee	10[g]	40	Unlimited
Texas	None	40	Unlimited
Utah	6[h]	40	Unlimited
Vermont	6	20	Unlimited
Virginia	6	40	Unlimited
Washington	None	No limit	Unlimited
West Virginia	6	34	Unlimited
Wisconsin	8	20	Unlimited
Wyoming	6	25[i]	Unlimited

*Hawaii excluded

[a] Determined locally

[b] Town and city district - 50 years

[c] No limit in charter counties

[d] Temporarily lifted until July, 1970

[e] Depending on type of construction

[f] Forty years for masonry and steel buildings

[g] Constitutional limit still exists

[h] To be raised to eight percent

[i] Thirty years on refunding bonds

Source: Inquiry forms to state school officials, trips to state agencies, and correspondence with state school officials. Data are for the 1969-70 school year unless otherwise specified.

While state limits on net interest rates have been forced upward in recent years, limits placed on the terms of bond issues have generally been nonrestrictive. Six states have no limit on the term of school bond issues and 20 states have a maximum limit of 20 years. The remaining states permit terms up to 40 years. The bond market recently has favored the shorter term issues as shown by the higher net interest costs on long-term issues. The value of legal restrictions on interest rates and/or the term of debt is questionable, since interest rates and length of term must be flexible if bonds are to be marketable.

Table 4.1 shows that only three states require tax rates for debt service within the overall school tax rate limit, namely Alabama, Iowa, and Pennsylvania. Other states provide for an unlimited tax rate for debt service, thereby enhancing the sale of bonds and preventing encroachment on the general operating school tax levy.

Limitations on Local Debt. Local boards of education customarily may issue bonds for the construction of new school buildings. The issuance of bonds creates a long-term indebtedness that is repaid while the school buildings are being used. The authority to issue bonds for school building purposes is not unrestricted. Characteristic limitations on bonded indebtedness are the source of authority for the issuance of bonds, the debt limitation, the base on which the limit is computed, and the provisions, if any, for exceeding debt limits. The data in Table 4.2 show these characteristics for 49 states. Hawaii is unique in that local tax funds are not used.

Table 4.2 indicates that 26 states have statutory debt limits while 20 states have constitutional debt limits. Michigan, Montana, and New York reported that school debt was limited by both the statutes and the constitutions. Hutchins reported that 27 states in 1957-58 had statutory school debt limits and 21 states had constitutional school debt limits.[7] A comparison of the data above with that reported by Hutchins indicates that there is no significant trend away from constitutional school debt limits by the states. Generally, it is difficult to alter school debt limits when such limits are determined by the state constitution. Statutory debt limits require less time and effort for needed alteration.

The school debt limit is based ordinarily on a fixed percentage of the assessed valuation of property. The inconsistencies inherent within the assessment practices of the states make comparisons of debt limitations unrealistic.

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[7] Hutchins, Clayton D., and Deering, Elmer C., Financing Public School Facilities, Office of Education, Washington, D. C., 1959.

TABLE 4.2. THE LEGAL BASIS, DEBT LIMITS, AND RIGHTS OF ALTERATION

State*	Legal basis of limitation**	Debt limitation	Right of alteration
Alabama	S	80% of revenue from a local tax pledged for bond retirement	None
Alaska	S	Determined locally	None
Arizona	C	4% of LAV; additional 6% on approval	None
Arkansas	S	15% of LAV; 18% in cases of extreme hardship	State Board
California	S	Elem. 5% of SEV; unified 10% SEV	None
Colorado	S	10% of LAV	State Tax Commission
Connecticut	S	5.75% (average tax receipts for 3 years - municipality debts) for regional school districts	None
Delaware	S	10% of LAV; Wilmington is limited to 1% or 2% with city council approval	None
Florida	C	20% of LAV; approval of State Board needed beyond 10%	State Board of Education
Georgia	C	7% of LAV	None
Idaho	S	10% of LAV for elementary districts; all others 15%	None

TABLE 4.2 (Continued)

State*	Legal basis of limitation**	Debt limitation	Right of alteration
Illinois	C	5% of LAV	None
Indiana	C	2% of LAV	None
Iowa	C	5% of actual value	None
Kansas	S	7% of tangible taxable property	State Board of Education
Kentucky	C	2% of LAV	None
Louisiana	C	25% of LAV	None
Maine	C	7.5% of LAV; new districts to 12.5% of state valuation	None
Maryland	S	10% of SEV in charter counties; no limit in other units	None
Massachusetts	S	2.5% for towns, or 5% for cities, of 3-year average LAV; in an emergency debt limits may be doubled	State Emergency Finance Board
Michigan	C,S	15% of SEV; unlimited with state approval	None
Minnesota	S	10% of actual value	Special Law
Mississippi	S	15% of LAV plus debt supported by a mill levy for a declared emergency	Local school board

TABLE 4.2 (Continued)

State*	Legal basis of limitation**	Debt limitation	Right of alteration
Missouri	C	10% of LAV	None
Montana	C,S	5% of LAV	None
Nebraska	S	40% of LAV for Class I and Class II districts	None
Nevada	S	15% of LAV	None
New Hampshire	S	7% of SEV; to 10% for co-operative districts	None
New Jersey	S	Ranges from 1.5% to 4.0% of SEV in Class VI, VII, & VIII by local board option	Electorate, State Board of Education
New Mexico	C	6% of LAV	None
New York	C,S	From 5% to 10% LAV depending on classification	None
North Carolina	C	5% of LAV; to 8% if county assumes debt of cities and schools	None
North Dakota	S	10% of LAV	None
Ohio	S	9% of LAV	Special needs of districts
Oklahoma	C	10% of LAV	None
Oregon	S	.55% each grade 1-8 & .75% each grade 9-12 of state determined actual value of taxable property	None

TABLE 4.2 (Continued)

State*	Legal basis of limitation**	Debt limitation	Right of alteration
Pennsylvania	S	Ratio of debt to income established by legislature	State Superintendent
Rhode Island	S	3% of LAV including city and town debt	State
South Carolina	C	8% of LAV except with approval of county electorate	Electorate
South Dakota	C	10% of LAV	None
Tennessee	S	Unlimited percent of LAV with electorate approval	None
Texas	S	10% of LAV or that debt supported by a 5 mill levy	None
Utah	C	4% of actual value	State
Vermont	S	10% of LAV	None
Virginia	C	18% of LAV except where specified in a charter; no limit in counties	None
Washington	C	10% of LAV	None
West Virginia	C	5% of LAV	None
Wisconsin	C	5% of SEV; 10% in city districts to include municipal debt	None

TABLE 4.2 (Continued)

State*	Legal basis of limitation**	Debt limitation	Right of alteration
Wyoming	S	6% of LAV; 10% in unit districts	None

*Hawaii does not have local provisions for school debt limitation.

**Symbols used include: S-statute; C-constitution, LAV-local assessed valuation, SEV-state equalized valuation.

Sources: Advisory Commission on Intergovernmental Relations, State and Local Finances, Washington, D. C., November, 1968, pp. 146-151. (Appears in Column 1)

Inquiry forms, interviews and correspondence with state school officials supplied the information in Columns 2 and 3; these data are for the 1969-70 school year unless otherwise specified.

All states, except Tennessee, stipulate a maximum amount of debt that may be incurred within the public school districts. The Alabama statutes provide that school bonds or warrants not be issued in an amount which would require more than 80 percent of the proceeds of the tax pledged for retirement of the bonds, nor be in an amount which would jeopardize the operation of the basic school program.

Some states provide for a degree of flexibility within the debt limitation to allow for emergency situations. This provision often is expressed as a limited increase in the percentage of debt permitted; in some cases a state agency is authorized to alter the specified limit to meet extraordinary conditions.

Wyoming, for example, allows sinking fund balances and current fund balances to be deducted before computing the debt-incurring power of the district.[8] A provision of this type allows the local school district some additional leeway for indebtedness.

Table 4.2 reveals that 34 states utilize the local district assessed valuation for the purpose of establishing the debt limit for a particular district. At least eight states permit an equalization factor to be imposed on the assessed valuation in order to encourage a more uniform assessment base within the state. A few states stipulate other methods, such as "actual value," relationship to school revenues, or relationship to the proceeds of the tax levy pledged for redemption as a means of determining the debt limit. In most cases local debt leeway is affected by the assessment practices in a state.

Table 4.2 shows that the authority for altering debt limits for public schools is restricted to a marked degree in several states and prohibited in most. More than one-half of the states do not allow alteration of debt limitations for any reason. However, a few states allow the State Superintendent and such state agencies as the State Board of Education, the State Tax Commission, or the State Legislature to alter debt limits.

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[8] Wyoming Statutes - Article 7, Section 2556.

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Assessment Practices. The equity and adequacy of property as a tax base is related to the methods used in assessment. Tax rates or debt limits based on assessed property values have little meaning without knowledge of assessment ratios. Higher tax rates and debt limits are necessary when property is assessed at less than its full value.

Typically, assessment originates at the local level. The entire process is complicated by a high degree of subjectivity, a lack of uniform preparation of assessors, varying classes of property, and guidelines from state government. Property is often assessed at a lower level than specified by statutes or the constitution.

Several states have attempted to stabilize assessment practices by the determination of equalization factors for the local school districts or counties. This practice is functional for state-related programs but does little to alleviate inequities within a taxing unit. In an attempt to alleviate deviations in assessment practices several states have recently passed legislation requiring that all property be assessed at 100 percent of true market value. The Kentucky Court of Appeals, in 1965, authorized an assessment level of 100 percent in order to attain more uniform assessment practices for that state.

During the period from 1956 through 1966, a general trend toward increasing the level of assessment in several states occurred. During this period the most significant increases in assessment levels occurred in Kentucky (29 percent to 91.4 percent), New Jersey (23.6 percent to 66.1 percent), and Florida (40.8 percent to 78.3 percent).[9] In some states, such as Tennessee, the requirement that full compliance with the statutory assessment level be attained by a given date is stipulated by statute.

Table 4.3 describes the assessment bases, valuation concepts, and actual assessment levels for the 50 states. The variations among the states are clear. The assessment bases required by state statutes range from the vague directive of "just value" in Main to the 100 percent level listed for 22 states. It should be noted here that among the states, the statutes, state regulations, or constitution may require a given level of property assessment, but that actual practice may fall short of these requirements. In other words, there is very often a wide differential between the specified assessment level and that level which actually exists. In effect, such wide variations become hidden limitations on the local collectible tax revenue for schools or other public purposes. The comparison of assessment level percentages illustrated in Table 4.3 shows at least eight states that reflect a variation of 75 or more percentage points between the specified statutory assessment levels and the actual practices which prevail. The data in Table 4.3 reflect a consistency among the states with respect to the concept or valuation for property assessment. Although the states differ in the terminology used to describe the concepts, there is general agreement that true market value is a reasonable concept for the valuation of property among the states.

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[9] "Taxable Property Values," Bureau of the Census, U. S. Department of Commerce, 1967 Census of Governments, vol. 2, September, 1968, pp. 42-44.

Actual assessment practices as shown in Table 4.3 vary widely among the states. South Carolina is an extreme case since property assessment is only 4.6 percent of the level recognized by the state. California, Colorado, Connecticut, and Kentucky are examples of states where the actual assessment ratios are approaching the recognized levels.

It seems worth noting that while better assessment regulations are needed, the move to require 100 percent of value as a tax base will increase the amount of permissible debt in states which express the debt limit as a percentage of actual assessed valuation.

TABLE 4.3. PROPERTY VALUATION CONCEPTS AND ASSESSMENT PERCENTAGES RECOGNIZED BY THE STATES AND ACTUAL SIZE-WEIGHTED ASSESSMENT PERCENTAGES

State	State recognized property valuation concept	State recognized assessment ratio as percent of value	Actual assessment size-weighted ratio (1966) as percent of sales value
Alabama	Fair and Reasonable Market Value	30	14.9
Alaska	Full and True Value	100	77.5
Arizona	Full Cash Value	18-60[a]	15.4
Arkansas	True Market Value	20	9.8
California	Full Cash Value	20-25[b]	18.7
Colorado	Actual Value	30	24.6
Connecticut	Uniform Percent of Market Value	60-70	50.9
Delaware	True Value	100	45.6[c]
Florida	Full Cash Value	100	61.3
Georgia	Full Cash Value	100	24.3
Hawaii	Fair Market Value	70	55.8[c]
Idaho	Full Cash Value	20	10.4[c]
Illinois	Fair Cash Value	55	39.3
Indiana	True Cash Value	33.3	23.4
Iowa	Actual Value	27	21.8
Kansas	True Value in Money	30	16.8
Kentucky	Fair Cash Value	100	77.0
Louisiana	Actual Cash Value	25	15.3
Maine	Just Value	---	50.1
Maryland	Full Cash Value Less Inflation	100	43.2
Massachusetts	Full Cash Value	100	43.7
Michigan	Full Cash Value	50	28.7
Minnesota	Market Value	Varies[d]	10.6
Mississippi	Market Value	100	10.8

TABLE 4.3 (Continued)

State	State recognized property valuation concept	State recognized assessment ratio as percent of value	Actual assessment size-weighted ratio (1966) as percent of sales value
Missouri	True Value in Money	100	23.9
Montana	True and Full Value	7-100	8.7
Nebraska	Actual Value	35	25.1
Nevada	Full Cash Value	35	23.6
New Hampshire	Full and True Value	100	48.6
New Jersey	True Value	20-100[e]	60.9
New Mexico	According to the Value	100[f]	15.6
New York	Full Value	100	34.6
North Carolina	True Value	[g]	40.6
North Dakota	Market Value	100	11.0
Ohio	True Value	50	34.3
Oklahoma	Fair Cash Value	35	14.2
Oregon	True Cash Value	100	18.9
Pennsylvania	Actual Value	100[h]	31.1
Rhode Island	Full and Fair Cash Value	[g]	55.3
South Carolina	True Value	100	4.6
South Dakota	True and Full Value	60	34.3
Tennessee	Actual Cash Value	50[i]	21.1
Texas	Full and True Value	100	15.6
Utah	Reasonable Fair Cash Value	30	14.4[c]
Vermont	Fair Market Value	100	27.5
Virginia	Fair Market Value	100	27.4

TABLE 4.3 (Continued)

State	State recognized property valuation concept	State recognized assessment ratio as percent of value	Actual assessment size-weighted ratio (1966) as percent of sales value
Washington	True and Fair Value	50	14.7
West Virginia	Appraised Value	50	37.5
Wisconsin	Full Value	100	49.2
Wyoming	Fair Value	[j]	17.4[c]

[a] Depending on Class of Property--effective 3/22/68.
[b] After 1971 - 25 percent.
[c] Commercial and industrial property were not computed.
[d] By class.
[e] Established by each County Board of Taxation.
[f] Supreme Court established 33 percent uniform ratio.
[g] Determined locally.
[h] 4th and 8th Class Counties not to exceed 75 percent.
[i] To attain 50 percent by 1973 and thereafter.
[j] Prescribed by the State Tax Commission.

Sources: Inquiry forms, interviews, and correspondence with state school officials supplied the information in Columns 1 and 2; these data are for the 1969-70 school year unless otherwise specified.

Bureau of the Census, Department of Commerce, Taxable Property Values, Volume 2, Washington, D. C., September, 1968, Table 9, pp. 42-47.

Local Procedures and Regulations for School Obligation Bond Issues. Generally, the major responsibility for the financing of public school facilities rests with local governing bodies. This situation has evolved through the years primarily because the authority for building school facilities was not exercised at the state level and was delegated to local communities. Along with the responsibility for local school building construction, the authority was delegated to the local community for arranging the financing of local school construction.

Table 4.4 shows that at least 80 percent of the states permit local boards of education to initiate bond sales for the school district. This delegation of power usually implies that the sole responsibility for the bond sales rests with the local district and the state does not intervene nor assist. Alaska, Connecticut, and Tennessee specify that the responsibility for the initiation of bond sales is solely that of thetown, city, or county council. Iowa and Texas stipulate that a petition by the voters is necessary for a bond sale to be initiated. Some states require that two or more separate agencies approve the initiation of the bond issue.

TABLE 4.4. STATE AND LOCAL RESPONSIBILITIES IN SCHOOL DISTRICT GENERAL OBLIGATION BOND ISSUE SALES

State*	Initiating agency	Selling agency	State assistance	
			In bond sale	By purchase
Alabama	Local Board, City or County	Local Board	No	No
Alaska	City Council or Burrough Assembly	Local Board	No	No
Arizona	Local Board	Local Board	No	No
Arkansas	Local Board	Local Board	May	No
California	Local Board and Petition	Local Board	No	No
Colorado	Local Board	Local Board	No	No
Connecticut	Town Government	Town Government	No	No
Delaware	Local Board	Local Board	Yes	No
Florida	County Board, Trustee, or Petition	Local Board	May	No
Georgia	County Board of Education or City Council	County Board or City Council	No	No
Idaho	Local Board	Local Board	No	Yes
Illinois	Local Board	Local Board	No	No
Indiana	Local Board	Local Board	No	No
Iowa	Petition of Voters	Local Board	No	No
Kansas	Local Board or Petition	Local Board	Yes	Yes
Kentucky	Local Board	Local Board	No	No
Louisiana	Local Board	Local Board	May	No
Maine	Local Board, Voters, or State	Local Board and Voters	No	No
Maryland	County Commissioners, Local Board, or City Council	County Commissioners	No	No
Massachusetts	City Council or Voters	City Council	No	No
Michigan	Local Board	Local Board	No	No
Minnesota	Local Board	Local Board	No	No
Mississippi	Local Board or Voters	Local Board	No	No

TABLE 4.4 (Continued)

State	Initiating agency	Selling agency	State assistance	
			In bond sale	By purchase
Missouri	Local Board or Voters	Local Board	May	No
Montana	Local Board or Voters	Local Board	No	No
Nebraska	Local Board or Voters	Local Board	No	No
Nevada	Local Board	Local Board	No	No
New Hampshire	Local Board or Voters	Local Board	No	No
New Jersey	Local Board	Local Board	No	No
New Mexico	Local Board or Voters	Local Board	No	No
New York	Local Board	Local Board	No	No
North Carolina	Local Board	Local Board	Yes	No
North Dakota	Local Board	Local Board	No	Yes
Ohio	Local Board	Local Board	No	No
Oklahoma	Local Board	Local Board	No	No
Oregon	Local Board or Voters	Local Board	No	No
Pennsylvania	Local Board	Local Board	No	No
Rhode Island	Local Board	Town or City Government	May	No
South Carolina	Local Board	Local Board	No	No
South Dakota	Local Board	Local Board	No	No
Tennessee	County or City Fiscal Body	County or City Fiscal Body	No	No
Texas	Petition of Voters	Local Board	No	Yes
Utah	Local Board	Local Board	No	Yes
Vermont	Local Board	Local Board	No	No
Virginia	Local Board	Local Board	No	No
Washington	Local Board	County Treasurer	No	Yes
West Virginia	Local Board	Local Board	No	No
Wisconsin	Local Board or City Council	Local Board	No	No
Wyoming	Local Board	Local Board	No	No

*Hawaii does not issue local school bonds.

Source: Inquiry forms, interviews, and correspondence with state school officials. Data are for the 1969-70 school year unless otherwise specified.

Local boards of education sell the bonds for school construction in 42 states. A few states stipulate that the municipal government, either city or county, rather than the local school board, sell the bonds. State assistance to the local school district for the sale of bonds is not a common procedure in most states, although eight states indicate that assistance in the bond sale is available. In Louisiana and Missouri consultation and legal advice is available to the local school districts and is the extent of state assistance in those states.

Only Idaho, Kansas, North Dakota, Texas, and Washington stipulate that the local bond issue must first be offered to the state. In some instances this procedure improves the credit rating of the bonds and tends to lower the net interest cost.

Approval to Issue School General Obligation Bonds. Methods of bond sale approval vary among the states. Table 4.5 shows that the states have a greater degree of agreement on the requirement of voter approval than on any other aspect of bond sales. All states except Alabama, Indiana, and Tennessee require a referendum for the sale of school construction bonds. Tennessee retains the authority to require voter approval for bond sales if the city or county governmental body decides an election is necessary.

TABLE 4.5. STATE AND LOCAL APPROVAL OF SCHOOL DISTRICT GENERAL OBLIGATION BOND ISSUES

State*	Basis of referendum approval	State approval required	Approving state agency
Alabama	None	Yes	State Superintendent
Alaska	Majority	No	None
Arizona	Majority	No	None
Arkansas	Majority	Yes	Commission for Education
California	Majority (2/3)	No	None
Colorado	Majority	No	None
Connecticut	Majority	No	None
Delaware	Majority[a]	Yes	State Board of Education
Florida	Majority	Yes	State Department of Education
Georgia	Majority	No	None
Idaho	Majority (2/3)	Yes	State Board of Education
Illinois	Majority	No	None
Indiana	None	Yes	State Board of Tax Commissioners
Iowa	Majority (3/5)	No	None
Kansas	Majority	Yes	Kansas School Fund Commission
Kentucky	Majority (2/3)	Yes	State Department of Education
Louisiana	Majority	Yes	State Bond and Tax Board
Maine	Majority[b]	No	None
Maryland	Majority[c]	Yes	None
Massachusetts	Majority (2/3)	No	None
Michigan	Majority[d]	Yes	Municipal Finance Commission
Minnesota	Majority	No	None
Mississippi	Majority (3/5)[e]	No	None
Missouri	Majority (2/3)	Yes	State Auditor

TABLE 4.5 (Continued)

State*	Basis of referendum approval	State approval required	Approving state agency
Montana	Majority	Yes	Attorney General
Nebraska	Majority (55%)	Yes	State Auditor
Nevada	Majority	No	None
New Hampshire	Majority (2/3)[f]	No	None
Jew Jersey	Majority	Yes	Attorney General
New Mexico	Majority	Yes	Attorney General
New York	Majority	Yes	State Department
North Carolina	Majority	Yes	Local Government Commission
North Dakota	Majority (3/5)	No	None
Ohio	Majority	Yes	State Department of Taxation
Oklahoma	Majority (3/5)	Yes	Attorney General
Oregon	Majority	No	None
Pennsylvania	Majority	Yes	Department of Community Affairs
Rhode Island	Majority	No	None
South Carolina	Majority	No	None
South Dakota	Majority (3/5)	No	None
Tennessee	None[g]	No	None
Texas	Majority	Yes	Attorney General
Utah	Majority	No	None
Vermont	Majority	No	None
Virginia	Majority	No	None
Washington	Majority (3/5)[h]	No	None
West Virginia	Majority (3/5)	Yes	Attorney General
Wisconsin	Majority	No	None
Wyoming	Majority	No	None

*Hawaii does not issue local school bonds.

[a] Wilmington excepted.
[b] Referendum not required in cities.
[c] Regulation varies

[d] Required if limitation is exceeded
[e] A simple majority is required if a petition is used.
[f] Except in certain cities
[g] Unless county or city body decides a vote necessary
[h] Referendum not required when debt outstanding is less than 1.5% LAV.

Source: Inquiry forms, interviews, and correspondence with state school officials. Data are for the 1969-70 school year unless otherwise specified.

Thirty-two states, as shown in Table 4.5, require only a simple majority of those voting in the special election for the approval of bond sales; 14 states require a favorable vote in excess of 50 percent. Six of the 14 states requiring more than 50 percent voter approval for school bond sales mandate at least a two to one vote margin. The constitutionality of the requirement for more than a majority vote for passage of a proposed bond issue is in litigation in several of these states. The outcome of these test cases may affect the legislation regarding bond issue referendums.

Other Local Borrowing. Revenue bonds and/or short-term loans are methods of borrowing funds frequently used by local school districts in lieu of or to supplement general obligation bond issues for capital outlay. Revenue bonds differ from general obligation bonds in the nature of their security. Revenue bonds pledge only the income or rentals from the facility provided by the proceeds of the bond sale. This type of security is generally regarded by investors as having greater risk than the full-faith and credit security of general obligation bonds and normally commands higher interest costs. The primary advantage of revenue bonds is that they may be used to avoid debt limits. Several states having restrictive debt limits have legalized revenue bonds. Since school districts are not normally considered revenue producers, special legislation is required for the creation of building authorities which issue revenue bonds, build schools, and lease them to the school districts. A discussion of school building authorities may be found in Chapter V of this report.

Short-term loans are frequently used by school districts to provide funds during the early stages of a building program when large sums may not be needed. This procedure may be used to save several months' interest on a major bond issue, to delay a bond issue in anticipation of a more favorable market, or to permit the program to progress when some technical problems develop in the bond sale. Short-term loans may be made through the use of bond anticipation warrants which pledge the proceeds of a future bond sale as payment or by the use of tax warrants when a building reserve tax levy is in effect.

Local Tax Revenues for Capital Outlay

Pay-as-you-go Programs. Financing of school facilities from current revenues is most feasible in large school districts. This method is not used extensively as the sole source of capital outlay funds because a broad tax base is required and because some districts have a philosophy which opposes it.

As the term suggests, pay-as-you-go financing utilizes current revenues and no provision is made for carrying funds from year to year. This method of financing facilities is desirable in that it avoids interest costs by eliminating the necessity of borrowing for capital outlay purposes. A major deterrent of pay-as-you-go financing plans is that they cause a sudden rise in the tax rate which may severely affect local financing. The procedure takes large sums of money from the local economy at one time, hence the use of the funds is lost to the individuals of the community. Some contend that spreading the cost over a longer period of time through borrowing is desirable. The impact of pay-as-you-go financing for public school facilities has been minor when compared with the total amount expended for capital purposes in the United States.

Building Reserve Funds. The use of building reserve funds in capital outlay programs incorporates several of the desirable features found in both the pay-as-you-go and the borrowing methods of funding school construction. Building reserve funds result in lower interest costs since borrowing may be reduced or avoided and the bond leeway of the school district may be reserved for emergencies. The cost of the facility is spread over several years, since building reserve funds require a tax levy during the years preceeding construction.

A total of 41 states allow school districts to establish building reserve funds; Delaware, Georgia, Hawaii, Maryland, Mississippi, New Mexico, North Dakota, South Carolina, and Texas are the exceptions, as shown in Table 4.6.

Although the legal right to establish building reserve funds is widely accepted in the United States, the extent to which they are utilized varies. For example, local schools in Indiana collected more than $75 million for building reserve funds in 1968-69, but in Nevada no school district levied a tax for this purpose in that year.[9] Since states may provide grants, loans, and building authority financing for school facilities in varying degrees, local reserve and appropriated funds are utilized depending on the extent to which other types of financing are available.

The maximum property tax levies for building reserve funds in 1969-70 varies from state to state. Table 4.6 reveals that 16 states reported no maximum tax rate limitation. Among the states which permit the electorate to determine the maximum levy were Arkansas, California, Missouri, and Vermont. A cumulative building fund tax rate not to exceed $1.25 on each $100 of local assessed valuation for a period of 12 years is permitted in Indiana. Kentucky stipulates both a minimum and maximum property tax levy if the local school district establishes a building reserve fund. Local districts in Kentucky may levy not less than five cents nor more than 50 cents per $100 of local assessed valuation. New Jersey stipulates that local districts may not accumulate an amount to exceed $45 per pupil in the School Building Aid and Capital Reserve Fund.

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[9] Source: Replies to inquiry forms which were sent to state school officials.

The states vary as to the maximum length of term for which a property tax may be levied for a building reserve fund. Table 4.6 shows that two-thirds of the states do not limit the length of term. Some states permit the electorate to specify the length of term while other states require a vote each year to continue the building reserve fund. Michigan and Montana permit local districts to levy the tax for as long as 20 years.

A favorable vote of the people is required to establish a building reserve fund in at least 23 states. The data found in Table 4.6 reveal that in most states where a referendum is required there are few limitations on the maximum tax rate or length of term.

TABLE 4.6. NAME, LEGAL LIMITS, AND REFERENDUM REQUIREMENTS FOR SCHOOL BUILDING RESERVE FUNDS

State	Legal name of fund	Legal Limits		Referendum required	
		Length of term (Years)	Property tax levy (Mills)	Yes	No
Alabama	Funds Reserved for Special Purposes	None	None		X
Alaska	District Reserve Fund	None	None		X
Arizona	Special District Levy for Building	None	1		X
Arkansas	Building Fund	None	None	X	
California	Special Reserve Fund	None	None		X
Colorado	Capital Reserve Fund	None	2		X
Connecticut	Reserve Fund for Capital and Nonrecurring Expenditures	None	2	X	
Florida	School Building and Bus Reserve Fund	None	4	X	
Idaho	School Plant Facilities Fund	10	10	X	
Illinois	Capital Improvements Fund	None	7.5[a]	X	
Indiana	Cumulative Building Fund	12	12.5		X
Iowa	School House Tax	None	2.5	X	
Kansas	Capital Outlay Fund	5	4		X
Kentucky	Special Voted School Building Fund	None	5	X	
Louisiana	School Building Construction Tax Fund	10	5	X	
Maine	N/A	None	None	X	

TABLE 4.6 (Continued)

State	Legal name of fund	Legal limits		Referendum required	
		Length of term (Years)	Property tax levy (Mills)	Yes	No
Massachusetts	Stabilization Fund	b	c	X	
Michigan	School Building and Site Fund	20	5	X	
Minnesota	Capital Expenditure Taxing Authority Fund	None	8		X
Missouri	School Building Reserve Account	4	None	X	
Montana	N/A	20	None	X	
Nebraska	Special Fund	None	4		X
Nevada	School District Building Reserve Fund	10	3.5		X
New Hampshire	Capital Reserve Fund	1	b[d]	X	
New Jersey	School Building Aid Capital Reserve Fund	None	c[e]	X	
New York	N/A	None	None	X	
North Carolina	County School Capital Reserve Fund	None	None		X
Ohio	N/A	5	None	X	
Oklahoma	Building Fund	None	5	X	
Oregon	N/A	10	None	X	
Pennsylvania	Capital Reserve Fund	5	3		X
Rhode Island	N/A	None	None	X	
South Dakota	Capital Outlay Fund	None	5		X
Tennessee	N/A	None	None		X
Utah	Building Reserve Fund	None	13.5		X

TABLE 4.6 (Continued)

State	Legal name of fund	Legal limits		Referendum required	
		Length of term (Years)	Property tax levy (Mills)	Yes	No
Vermont	Reserve Fund	None	None	X	
Virginia	N/A	None	None		X
Washington	Building Fund	None	None	X	
West Virginia	Permanent Improvement Fund	None	.6[d]		X
Wisconsin	School Sinking Fund	None	None	X	
Wyoming	Building Fund	None	None	X	

[a] Accumulation may not exceed 50 percent of LAV.
[b] Not to exceed 10 percent of assessed valuation.
[c] Not to exceed 10 percent of last years taxation amount.
[d] Not to exceed 1/2 percent of LAV.
[e] $45 per pupil limit from state and local sources.
[f] Varies with class of property.

N/A - Denotes no legal name reported.

Source: Inquiry forms to state school officials, trips to state agencies, and correspondence with state school officials. Data are for the 1969-70 school year unless otherwise specified.

All states permitting building reserve funds,except one utilize the local property tax as a source of funds. A special poll tax is designated as the source of funds for building reserves in Vermont. Although Table 4.7 reveals that the property tax revenue is the major source of funds; at least ten states utilize other sources. Among the other sources are unencumbered surpluses, gifts, donations, local sales taxes, and state and federal grants.

All 41 states report utilization of building reserve funds for school construction in 1969-70. In most of those states such activities as planning, architect fees, purchase of sites, erection and furnishing building alterations, and additions are included as construction costs.

Local school districts also may pay debt service from the building reserve funds in 14 states. The use of funds for other capital outlay purposes, as cited in Table 4.7, may refer to the purchase of school buses or certain lease rental or lease-purchase payments. Some states provide that in emergency situations the local electorate may approve the use of reserve funds for any school purpose.

Peterson reported that, during 1968-69, 26 states collected more than $340,000,000 in local building reserve funds for capital outlay purposes.[10]

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[10] Peterson, Wendell J., Local Building Reserve Funds for Public School Facility Financing in the United States, Unpublished doctoral dissertation, School of Education, Indiana University, June, 1970.

TABLE 4.7. SOURCES AND USES OF SCHOOL BUILDING RESERVE FUNDS IN SELECTED STATES

State	Source of funds			Use of funds		
	Local property tax	Other local taxes	Other sources	Construction*	Debt service	Other capital outlay
Alabama	X			X	X	
Alaska	X	X		X	X	X
Arizona	X			X		
Arkansas	X			X	X	
California	X		X	X		X
Colorado	X		X	X		X
Connecticut	X			X		
Florida	X			X	X	X
Idaho	X		X	X		X
Illinois	X			X		
Indiana	X			X	X	X
Iowa	X			X		
Kansas	X			X		X
Kentucky	X		X	X	X	X
Louisiana	X			X		
Maine	X		X	X		
Massachusetts	X			X	X	
Michigan	X			X		
Minnesota	X			X		
Missouri	X		X	X		
Montana	X			X		
Nebraska	X			X		
Nevada	X			X		
New Hampshire	X		X	X		
New Jersey	X			X	X	
New York	X	X	X	X	X	
North Carolina	X			X		
Ohio	X			X		
Oklahoma	X			X		
Oregon	X			X		
Pennsylvania	X			X	X	
Rhode Island	X			X	X	
South Dakota	X			X		X
Tennessee	X	X		X	X	
Utah	X		X	X		

TABLE 4.7 (Continued)

State	Source of funds			Use of funds		
	Local property tax	Other local taxes	Other sources	Construction*	Debt service	Other capital outlay
Vermont		X		X	X	X
Virginia	X			X	X	X
Washington	X		X	X		
West Virginia	X			X	X	
Wisconsin	X			X	X	
Wyoming	X		X	X		

*Construction may include purchase of sites, erecting school buildings, improving, altering, furnishing, and repairing school buildings, improving school sites, architect fees, and planning costs.

Other Local Sources for Capital Outlay

Nontax Receipts. School facility financing through donations, gifts and fund drives in local school districts is not typical, but in some communities is quite significant. Many local communities benefit by trusts and inheritances for financing school facilities. In some cases certain conditions for the use of the funds are stipulated by the donor. The Indiana Department of Public Instruction reported that nearly $10 million in gifts and trusts was received by local school districts for capital purposes during 1966-67.

Nontax receipts may involve a change in the nature of a school district's existing assets. Insurance settlements, after a fire or some other form of disaster, may provide capital outlay funds. The sale of surplus property may add cash to the building reserve fund. These sources of funds are only incidental to the overall needs for comprehensive school facility financing programs.

The sale of "air rights" of a public school facility to private enterprise may create a new source of nonrevenue receipts for school districts. Densely populated urban areas may increasingly utilize this unique method of school capital outlay financing in the future.

CHAPTER V

STATE PROVISIONS FOR FINANCING PUBLIC SCHOOL FACILITIES

Prior to World War II, responsibility for financing public school construction fell largely upon local school districts. Population shifts, economic conditions, and educational changes contributed to situations in which local school districts were unable to meet their school building needs via the traditional method of local bond issues. Statutory or constitutional debt or millage limitations served as barriers in many states, and unpalatable property tax rates were barriers in other instances.

Experience has revealed that the determining factor in the construction of new facilities may well not be need, but in fact may be one party's willingness and ability to furnish the funds to construct new facilities and another party's ability and willingness to service the debt. Thus, the volume of school construction in local school districts may not necessarily be the result of needs or wants, but may be the result of taxpaying capacity and effort of the school district and the cost and availability of credit.

School finance experts have been urging state participation in school construction financing for many years. A study by the United States Office of Education in 1951 concluded that state assistance to local districts was essential, and guidelines for satisfactory state programs were formulated. These were:[1]

1. Each state should make provision for state assistance in the financing of capital outlay programs.
2. The state programs for financing school buildings should be scientifically developed.
3. State plans for financing capital outlay should be developed as an integral part of the foundation program of education.
4. Any acceptable program should provide adequately and equitably for all essential school plant needs.
5. Provision should be made in the program for some state grants rather than for loans alone.
6. The state plan should be financed through an equitable combination of state and loan revenues.
7. The state plan should provide for both emergency and long-range needs.
8. Funds should be derived chiefly from current state and local revenues.
9. The programs should be administered by the state department of education.
10. An objective formula for apportioning funds, using effective measures of need and ability,

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[1] Lindman, E. L.; Hutchins, C. D.; Morphet, E. L.; and Reller, T. L., State Provisions for Financing Public School Capital Outlay Programs, United States Office of Education, 1951, pp. 136.

should be incorporated in the law.

11. The program should provide for equitable tax effort.
12. Each school system should have a reasonable margin of local tax leeway or bonding capacity.
13. The program should place maximum emphasis on local responsibility and state leadership.
14. Comprehensive local school plant studies should be required.
15. Each local school system should develop and adopt a long-range program.
16. The state program should require that all necessary facilities be constructed in permanent school centers.

By 1965, 40 of the 50 states had developed some form of state assistance to local school districts for school building financing.[2] Five states had both loan and grant programs; nine states had loan programs only; and 19 states had grant programs only. Several states utilized state building authorities, state guarantees of debt service, and state purchases of local district school building bonds.

The methods of financing education in the several states have recently been at issue in the Federal courts. Plaintiffs

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[2] Barr, W. M., and Wilkerson, W. R., "State Participation in Financing Local School Facilities," Trends in Financing Public Education, Eighth National Conference on School Finance, National Education Association, Washington, D. C., 1965, pp. 224-232.

in these cases generally allege that wide variations in expenditure levels among districts within a state can and does occur because of divergence in local taxpaying capacity and effort. These suits, which are based upon the equal protection clause of the Fourteenth Amendment, have attacked the current expenditure segment of school funds. Should these court actions receive favorable rulings, it is possible that state arrangements for financing facilities might also be the subject of legal actions.

The Advisory Commission on Intergovernmental Relations in 1969 recommended "state assumption of substantially all responsibility for financing education."[3] The key premises upon which the recommendation was based were property tax relief and equal educational opportunity.

This chapter includes a report of selected characteristics of existing programs for state financial participation in local school construction. Particular emphasis is placed upon grant programs, loan plans, and authority financing to determine which practices might have sufficient value for inclusion in new models for financing educational facilities.

State Grants for Public School Construction

Many of the states found themselves in the enviable position of having sizeable surpluses in their treasuries immediately after World War II, and several programs for granting funds to local school districts for school facility purposes were instituted. Table 5.1 shows the incidence and magnitude of state grant programs by six year intervals from 1950-51 through the 1968-69 school year. Details of financing public school construction in each of the 50 states appear in Appendix A.

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[3] Advisory Commission on Intergovernmental Relations, State Aid to Local Government, The Commission, Washington, D. C., April, 1969, pp. 14-16.

It may be noted that 21 states (including Alaska and Hawaii, then territories) had grant programs in 1950-51, and in excess of $78 million was reported to have been made available to local school districts for capital outlay and/or debt service purposes. Dollar volume leaders were North Carolina, California, and Maryland. Certainly, the amounts granted by several of the states, (Hawaii, Rhode Island, Alaska, Connecticut, Pennsylvania, and Missouri) were token, but the concept was beginning to be established that states do have fiscal responsibility for provision of public school housing.

During the next six years, the amount of funds granted for public school construction more than doubled. California, having embarked upon its massive loan program, had been dropped from the list; however, Kentucky, New Hampshire, New Jersey, South Carolina, Utah, and Vermont had been added. Twenty-seven of the 50 states reported grants totalling $187 million, with South Carolina and Washington both granting in excess of $15 million.

TABLE 5.1. AMOUNT OF STATE FUNDS AVAILABLE FOR GRANTS TO LOCAL SCHOOL DISTRICTS FOR CAPITAL OUTLAY AND DEBT SERVICE, SELECTED YEARS

State	Amount of Grant Funds Available			
	1950-51	1956-57	1962-63	1968-69
Alabama	$ 1,530,087	$ 1,955,087	$ 1,955,087	$ 1,955,087
Alaska	474,200	1,471,145	750,000	1,616,700
California	7,096,752	---------*	---------*	---------*
Connecticut	474,265	2,963,784	8,720,164	16,000,000
Delaware	2,9-2,293	7,119,320	12,210,300	15,679,000
Florida	5,972,055	11,847,804	17,946,484	56,475,066
Georgia	---------	14,302,380	20,000,000	28,300,000
Hawaii**	1,044	416,860	6,637,340	30,332,500
Illinois	---------	---------	---------	1,900,000
Indiana	---------	---------	---------	46,600,000
Kentucky	---------	8,582,000	11,242,209	20,849,990
Maine	---------	---------	876,557	4,000,000
Maryland	7,030,151	4,017,938	11,237,311	50,500,000
Massachusetts	1,151,216	9,770,349	16,193,690	23,699,304
Michigan	3,020,469	7,250,293	---------	---------
Mississippi	1,027,072	5,038,363	7,500,000	6,600,000
Missouri	627,902	1,771,562	1,108,018	1,800,000
New Hampshire	---------	345,978	1,130,107	2,863,000
New Jersey	---------	10,699,063	15,946,655	28,579,377
New York	2,044,886	10,643,979	116,200,000	183,981,149

TABLE 5.1 (Continued)

State	Amount of Grant Funds Available			
	1950-51	1956-57	1962-63	1968-69
North Carolina	$23,326,340	$14,218,280	$ 182,271	$ 8,445,067
Ohio	1,927,806	8,682,969	---------*	---------*
Pennsylvania	405,000	13,150,000	35,000,000	50,000,000
Rhode Island	6,500	6,500	1,592,236	4,100,000
South Carolina	---------	25,517,253	2,337,820	16,386,700
Tennessee	6,300,000	7,745,000	8,775,000	10,382,000
Utah	---------	1,428,170	3,398,000	4,245,000
Vermont	---------	1,157,934	4,358,396	4,648,259
Virginia	6,937,033	1,421,504	---------	---------
Washington	3,246,938	17,329,902	20,000,000	13,000,000
West Virginia	3,093,000	46,000	---------	---------
TOTALS	$78,147,136	$187,019,463	$325,297,645	$632,948,199

*Ohio and California had loan programs with limited repayment by participating districts.

**Organized as a single school district.

Sources: 1950-51 and 1956-57 data from "Financing Public School Facilities," U. S. Office of Education Misc. #32, 1959. 1962-63 data from U. S. Office of Education looseleaf reports "State Public School Finance Programs of 1962-63" and correspondence with chief state school officers. 1968-69 data from "Public School Finance Programs, 1968-69," U. S. Office of Education, 1969 and correspondence and interviews with state education agency officials.

By 1962-63, the total amount of capital outlay grants had increased to more than $375 million. New York's program was massive, with more than $116 million granted. Pennsylvania, Washington, and Georgia also reported grants of $20 million or more. In 1968-69, $633 million was granted, with Florida, Indiana, and Maryland joining New York and Pennsylvania as states with distribution of more than $40 million. Grant programs for capital outlay were reported by 26 of the 50 states[4] in 1968-69. Since 22 of these states had reported grants in both 1956-57 and 1962-63, their programs can probably be considered as permanent features of state school support arrangements in those states.

Advantages of Grants

Due pointed out that grants-in-aid do much to solve the basic problems of intergovernmental fiscal relations. Functions can remain in the hand of the local governmental units, thus avoiding centralization, while funds are obtained from statewide revenue sources rather than from local property tax levies exclusively. When the grants are distributed on an equalization basis, problems resulting from unequal tax sources among school districts are alleviated and extremely low levels of service or excessive local tax burdens can be avoided. Grants can also be used to stimulate local activities, such as school construction, without imposing excessive restrictions on local school districts.[5]

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[4] Hawaii, which is organized as one school district, actually provides all construction funds at the state level, but will be included as a "grant" state for purposes of convenience.

Johns and Morphet recently commented on the changing nature of sources of income from which taxes may be paid. Less than ten percent of the national income is derived from property--thus, if sources of income for school support are to be related to sources of income of the citizenry, shifts from property to nonproperty tax revenue sources are desirable. Grants from the states, which generally derive most of their revenues from nonproperty tax sources, are therefore defensible.[6]

Barr and Garvue noted that state grants for either debt service or construction should increase the marketability of local bonds. If state grants are used for debt service, the impact of local indebtedness on the property tax is decreased. If the grants are used for construction, the future indebtedness of the district will be reduced. In either case, the net effect is to broaden the support base for financing school building construction; a condition which should be reflected in lower net interest costs on local borrowing.[7]

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[5] Due, J. F., Government Finance, Richard D. Irwin, Inc., Homewood, Illinois, 1963, p. 448.

[6] Johns, R. L., and Morphet, E. L., The Economics and Financing of Education, Prentice-Hall, Inc., Englewood Cliffs, New Jersey, 1969, pp. 239-240.

[7] Barr, W. M., and Garvue, R. J., "Financing Public School Capital Outlays," in The Theory and Practice of School Finance, Rand-McNally and Company, Chicago, 1967, pp. 271-272.

Disadvantages of Grants

Due cited the following principal objections to grants-in-aid:

1. Larger units of government use grants to buy control over functions which properly belong to the smaller units. (Since education is a state responsibility, this objection would not appear to be applicable to grants for school building purposes.)
2. Grants can enable recipient governments to become wasteful and to abdicate financial responsibility.
3. The nature of many grants causes recipient units to create distortions of local expenditure patterns in order to become eligible for the grants.
4. Grant programs might interfere with optimum use of resources, particularly those which check the flow of labor from those areas with labor surpluses. However, if lack of skill or human capital is responsible for the surplus, the grants (particularly those for educational facilities) might help remedy this problem.[8]

In his analysis of state support programs, Barr noted several other possible undesirable outcomes that may be attributed to grants-in-aid. These include:

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[8] Due, op. cit., pp. 448-450.

1. Inadequate local school units may be perpetuated.
2. The presence of state support has often enabled local officials to avoid making desirable improvements in local revenue systems.
3. Grant programs, particularly those related to a real or fancied emergency, often tend to survive long after the duration of the emergency.
4. The multiplicity of grants (in some states) creates needless complexity in school financing.[9]

Due pointed out that the general case for conditional (special purpose) grants is strong, if the programs are soundly conceived and administered. If it is deemed desirable to avoid direct centralization of function, grant programs can be devised which will enable recipient units with varying fiscal abilities to satisfy expenditure requirements.[10]

Characteristics of School Facility Grant Programs

One common method of distinguishing among public school grants is that used by the U. S. Office of Education.[11] This classification categorizes public school grants according to (1) "general" or "special" purpose, which is related to the use of the proceeds, and (2) "flat" or "equalization," which is determined by ascertaining whether some measure of local fiscal capacity is used to arrive at the amount of the grant. Benson adds a "needs" measure which can be used to distinguish whether the grant is based upon some state determined measure of unit costs or upon a local determination of costs.

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[9] Barr, W. M., _American Public School Finance_, American Book Company, New York, 1960, p. 153.

[10] Due, _op. cit._, pp. 440-451.

[11] Benson, C. S., "State Aid Patterns," in Burkhead, J., _Public School Finance_, Syracuse University Press, Syracuse, 1964, p. 209.

Use of Proceeds. In one sense, all state grants for public school purposes are special in nature; that is, all are for the governmental function of education. (In a few states, such as Alabama, Florida, Kentucky, and New York, allotments for capital outlay and/or debt service are included as an integral part of a broad general purpose state foundation program for education.)

Most of the states, however, distribute funds for school facility purposes as special programs. Except for Indiana and New Hampshire, all of the 26 states granting funds for school building purposes in 1968-69 specified that the funds could be used for capital outlay, as shown in Table 5.2. The usual pattern was that the state grants could be used for either capital outlay or debt service. New Hampshire's program stipulated that the funds can be used only for bond principal retirement; Indiana, Georgia, Kentucky, Maine, and Pennsylvania allowed lease-rental payments to be made from the proceeds of the state grants. Table 5.2 gives the details for each state.

Further detail appears in individual state programs included in Appendix A.

Grants in Illinois are made only for construction of special education facilities. Other states grant funds only for area vocational schools (Iowa) or community colleges (Oregon). Programs of the latter two states are not included in this analysis, which deals only with grants for public elementary and secondary schools.

TABLE 5.2. PURPOSE OF STATE GRANTS FOR SCHOOL BUILDING PURPOSES, 1968-69

State	Capital outlay	Debt service	Bond principal only	Lease rental payments	Local capital reserve fund
Alabama	X	X			
Alaska	X				
Connecticut	X	X			
Delaware	X				
Florida	X	X			
Georgia	X	X		X	
Hawaii*	X				
Illinois	X				
Indiana		X		X	
Kentucky	X	X		X	X
Maine	X	X		X	
Maryland	X	X			
Massachusetts	X	X			
Mississippi	X	X			
Missouri	X				
New Hampshire			X		
New Jersey	X	X			X
New York	X	X			
North Carolina	X				
Pennsylvania	X			X	
Rhode Island	X	X			
South Carolina	X	X			
Tennessee	X	X			
Utah	X	X			
Vermont	X	X			X
Washington	X				

*All construction is financed by the State, which is organized as one school district.

Source: Derived from Office of Education, Public School Finance Programs, 1968-69, (compiled by Thomas L. Johns) and correspondence and interviews with officials of state departments of education.

Allocation Procedures. Those grants which are part of the general foundation program for education can be classed as equalization grants, since those districts with low fiscal capacity receive proportionately more funds from the state than the wealthy districts. Other states have special purpose grant programs for capital outlay and/or debt service which do require uniform local tax rates as a condition for participation--these are also equalization grants. Florida has two grant programs, one of which is closely related to the foundation program, with funds provided (by constitutional amendment) from earmarked proceeds of sale of motor vehicle license tags.

The majority of the state programs for capital outlay may be classified as "flat" grants, since a measure of local fiscal capacity is not considered in determining the amount of the grant. It is acknowledged that there is considerable equalization inherent in flat grants, since the revenues usually are state collections from nonproperty taxes and proportionately greater per capita or per pupil revenues are usually collected from wealthier districts. Further, the local tax rate necessary to replace the flat grant distribution would be higher for the poorer districts than for the wealthier districts.

Several of the "flat" grants are allocated on a per pupil basis. Indiana allocated $40 per pupil for debt service (including lease-rental payments) in 1968-69. Mississippi distributed $12 per child in ADA the same year; school districts could receive an advance of up to 75 percent of the estimated amount that would accrue within 20 years. South Carolina's grant program appropriated $25 per pupil enrolled. Advances could be made against future grants or the district's share could be credited to its account for later use. Alaska's grant program distributed funds based on fixed amounts per district and per pupil. Florida based one of its grant programs on increased enrollment while New Hampshire based the amount of the grants partially upon criteria related to the adequacy of size of the districts.

Table 5.3 shows the name of the fund and measure of local ability for states which were distributing school facility grants on some form of equalization basis in 1968-69.

Other states base their school construction grants upon a predetermined percentage or dollar amount of approved project costs. Delaware, for example, grants to local districts 60 percent of approved project costs. Georgia bases the amount of the state grant upon approved square footage costs as related to the grade levels of pupils and upon the amount of unused local bonding capacity. Hawaii, with its totally state financed educational system, requires no local participation in the funding of school buildings.

TABLE 5.3. STATE GRANTS FOR CAPITAL OUTLAY AND/OR DEBT SERVICE ALLOCATED ON AN EQUALIZATION BASIS, 1968-69

State	Name of fund	Measure of local ability
Alabama	Minimum Program Fund	Index of taxpaying ability
Florida	County Capital Outlay and Debt Service Fund	Assessed valuation and index of taxpaying ability
Illinois	Special Education Facilities	Assessed valuation
Kentucky	Foundation Program Fund	Assessed valuation
Maine	State Aid for School Construction Fund	Assessed valuation
Maryland	School Building Construction Aid	Assessed valuation and index of taxpaying ability
Massachusetts	School Construction Grant for Capital Outlay and Debt Service	Assessed valuation
New Jersey	School Building Aid Fund	Assessed valuation
New York	General Aid	Assessed valuation
Pennsylvania	Obligations and Rentals to School Building Authority	Assessed valuation
Rhode Island	School-Housing Aid Program Fund	Assessed valuation
Tennessee	Capital Outlay Fund	Assessed valuation
Utah	a. Bond Unit or Alternate Building Aid	Assessed valuation and bonded debt
	b. Continuing School Building Aid Fund	Assessed valuation
Washington	School Building Construction Fund	Assessed valuation

Source: U. S. Office of Education, Public School Finance Programs, 1968-69, (compiled by T. L. Johns) and correspondence and interviews with officials of State Departments of Education.

Needs Measure

Benson stated that the essential distinction with respect to needs is whether some predetermined measure of unit costs or a percentage of locally determined expenditure becomes the basis for the amount of the grant.[12] The bulk of the state grant programs use some predetermined (by formula) base amount. Some of the foundation program grants are based upon a fixed amount per classroom unit or pupil, such as Florida's $400 per instruction unit and Kentucky's $1,200 per classroom unit. New York's foundation program provides for varying grant bases, dependent in part upon the grade levels to be housed in the project. Georgia, Connecticut, and Pennsylvania make distinctions in the amount of the grant on the basis of whether the project is for elementary or high school pupils.

Several of the states utilize a fixed predetermined amount per pupil as the grant amount. Equalizing grants following this pattern include those of Maryland, Tennessee, Utah, and New Jersey. Indiana, South Carolina, and Mississippi are among the states which allocate a flat annual per pupil amount with no local share required.

No states reported programs with grants based exclusively upon locally determined costs. Several of the descriptions of the grant programs use the term "percent (or portion) of approved cost" -- the word "approved" can probably be construed to mean that some state agency has the final decision as to the project cost which will be the basis for state participation. Delaware, for example, pays 60 percent of approved project costs for all construction, while Maine pays a varying percentage of approved costs depending upon state valuation per resident pupil. Other states utilizing approved project costs to partially determine the amount of the grants include Massachusetts, New Hampshire, Pennsylvania, Vermont, and Washington.

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[12] Benson, op. cit., p. 209.

The unit of need for determination of grant amounts can be related to the status of school district reorganization. Missouri provides token grants for abandonment of elementary schools and for construction of central high schools. Massachusetts also varies the extent of state participation depending upon whether the school district is reorganized. New York also uses state building grants as an incentive for reorganization.

Increased enrollment is sometimes used as a criterion for determination of need. For example, one of Florida's two grant programs apportions $800 per pupil for increases for the last completed school year over the next previous year.

Sources of State Funds. Grant programs are financed from legislative appropriations from state general funds, proceeds of state bond issues, earmarked tax receipts, permanent fund income, or some combination of these.

Classification of grant programs by source of fund is difficult -- for example, South Carolina originally obtains grant funds from state bond issues, but the legislature annually appropriates these funds for distribution to the participating school districts. Too, earmarked tax proceeds are frequently used to service debt incurred as a result of state bond issues -- Florida and Alabama are two states which follow this procedure. Table 5.4 details the sources of funds used by the states which granted funds for public school construction in fiscal 1969.

TABLE 5.4. SOURCES OF FUNDS FOR STATE GRANTS FOR SCHOOL FACILITY PURPOSES, 1968-69

State	General fund appropriations	Earmarked tax receipts	Bond issues	Permanent fund income
Alabama	X	X	X	
Alaska		X		
Connecticut	X		X	
Delaware			X	
Florida	X	X	X	
Georgia	X		X	
Hawaii*	X		X	
Indiana	X	X		
Illinois	X			
Kentucky	X			
Maine	X		X	X
Maryland	X			
Massachusetts	X			
Mississippi	X		X	
Missouri	X			
New Hampshire	X			
New Jersey	X			
New York	X			
North Carolina	X		X	
Pennsylvania	X			
Rhode Island	X			
South Carolina	X		X	
Tennessee	X			
Utah	X			
Vermont	X		X	
Washington	X		X	

*The state constructs all facilities directly.

Sources: _Moody's Municipals and Governments, 1969_. _Public School Finance Programs, 1968-69_, (U. S. Office of Education); and correspondence and interviews with officials of state education agencies.

Miscellaneous Related State Grants. Certain other state funds for school facilities are allocated in addition to those provided for by specific grants for capital outlay and/or debt service for elementary and secondary schools. Among these miscellaneous grants are:

1. Non-restricted distributions of state funds to local districts. Louisiana, Arkansas, Michigan, Minnesota, Nevada, North Dakota, Oklahoma, Oregon, Virginia, and Wyoming each distribute some funds which may be used by local school districts for any legal school purpose. Presumably, capital outlay and debt service expenditures could be financed partially by the state grant proceeds.

2. Capital outlay grants for community college and vocational school construction. Iowa grants state funds for construction of area vocational schools and Oregon provides grants for community college construction, but neither state has a program for granting funds for elementary and secondary school facility purposes.

3. Limited-repayment loans. Both Ohio and California have significant loan programs which are devised so that part of the loan balances may be forgiven. It is estimated that about half of the principal amounts of all loans made by California will be forgiven, and Ohio will be repaid for only 27 percent of funds advanced to local districts.

4. Interest subsidies. States with loan programs often arrange for participating school districts to borrow at interest rates which are lower than the state must pay for borrowed funds or which provide a lower return to the state than it could obtain through other investments. In either case, the difference can be regarded as a form of grant to the local district.

By 1968-69, 26 states were granting funds to local school districts for school construction, debt service, or lease-rental purposes. The extent of state participation ranged from the totally state financed system in Hawaii to token grant programs in Missouri and Illinois. The concept that state participation in financing school construction is necessary and desirable appears to have gained acceptance in 22 of the 50 states, since these had grant programs in 1956-57, 1962-63, and in 1968-69. The dollar volume of state grants increased from $78 million in 1950-51 to $633 million in 1968-69.

Grant programs have the advantage of making state financial resources available to the local school districts while permitting the school building function to remain primarily in the hands of local school officials. Since few state funds are derived from the property tax, the localities are afforded property tax relief, whether or not the grants are "flat" or "equalizing." Stimulation of local activity and incentives to meet school facility standards can also be accomplished by state grant programs. Marketability of local bond issues can probably be enhanced by the infusion of state funds, since this has the effect of broadening the local tax base which is the security for the bonds.

One of the principal objections to grant programs is that the recipients may not be as prudent with expenditures as would be the case if all funds were locally derived. Matching grants might cause local expenditure patterns to become distorted in order for the local district to participate in the grant program. A multiplicity of grants may unduly complicate the school finance programs within a state.

Well conceived and administered grant programs can probably make a strong contribution to the viability of local school government. Examples of some excellent programs are already in existence in a few of the 26 states now granting funds to local districts. Details of each state program may be seen in Appendix A of this report.

State Loan Programs for Public School Construction

Fourteen states currently have a program to loan state or state controlled funds to local units of government for provision of public school facilities. These programs are referred to in this study as state loan programs.

State loan programs alleviate many of the problems related to independent open market borrowing by local school districts. For example, state loan program funds are generally made available to districts according to their needs rather than their ability to repay; interest rates are uniform regardless of a district's credit rating; bonding costs are eliminated; and most programs provide for state participation in the planning and locating of school plants. Inadequate funding prevents most of the state loan programs from meeting the needs of school districts.

Since loans must be repaid, state loan programs, by themselves, do not solve the problem of variations in ability among school districts to pay for school facilities. State grants to supplement or replace local debt service or building fund levies provide one method of broadening the tax base for school facilities. Such grants tend to equalize the financial ability of school districts to provide facilities and to provide a measure of local property tax relief.

State loan programs are ordered by the philosophy, needs, and resources of each state; no two programs are exactly alike. They were developed early in the history of some states and only recently in others. Characteristics of various state loan programs such as use and source of funds, the administering body, effect on local debt limits, local unit requirements for loans, and the significance of the program relative to the total needs of school districts for facilities, are essential to understanding their advantages and disadvantages as a means of providing funds for public school facilities.

States Having State Loan Programs. State administered loan programs for public school facilities are not new. Both Virginia and Wisconsin initiated programs in the nineteenth century. Virginia's Literary Fund has functioned as a school loan program since 1810 and Wisconsin began a loan fund in 1844. Most of the current state loan programs have, however, resulted from legislation following World War II.

Eighteen states were identified in 1965 by Barr and Wilkerson[13] as having used school loan programs since World

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[13] Barr and Wilkerson, _op. cit._

War II. Currently only 14 states have loan programs. Details appear in Appendix A of this report. Table 5.5 shows the states which have loan programs, the year they were established, and the purposes for which loans may be used.

There is no geographic pattern of states having loan funds although several mid-western states are represented. Ten of the 14 states have established their programs since 1946, and only Connecticut has initiated a new program since 1959.

Table 5.5 shows no uniformity in loan program titles. In some states they reflect the purpose of the fund, in others the manner of operation, and in some the source of funds. Names of many of the funds have been changed in subsequent legislation which repealed or amended the original act.

Permitted use of loan fund proceeds is categorized in Table 5.5 as capital outlay, debt service or refunding. Each state except Michigan permits the use of loan funds for capital outlay.[14] The Michigan program provides only for debt service needs in excess of the revenue obtained from a specified local debt service tax levy. Minnesota provides for both debt service and capital outlay loans. Wisconsin permits state loans for both refunding of existing debt and for capital outlay.

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[14] Details concerning what is considered as "capital outlay" are available in the individual state plans contained in Appendix A of this report.

TABLE 5.5. STATE LOAN PROGRAMS, YEARS ESTABLISHED, AND USE OF LOAN FUNDS

State	Date established	Name of program	Loan use
Arkansas	1928	Permanent School Revolving Loan Fund	Capital outlay-refunding
California	1947	State School Building Aid Program	Capital outlay
Connecticut*	1969	Public Act No. 751	Capital outlay
Illinois*	1957	School Building Commission Fund	Capital outlay
Indiana*	1955	Veterans Memorial School Construction Fund	Capital outlay
	1959	Common School Fund Loan	Capital outlay
Maryland*	1949	General Public School Construction Loan Program	Capital outlay
Michigan	1955	School Bond Loan Fund	Debt service
Minnesota	1959	Maximum Effort School Loan Fund	Capital outlay-debt service
North Carolina*	1903	State Literary Fund	Capital outlay
North Dakota	1953	State School Construction Fund	Capital outlay
Ohio	1957	State School Building Assistance Program	Capital outlay
Virginia	1810	Literary Fund	Capital outlay
Wisconsin	1844	State Trust Fund	Capital outlay-refunding
Wyoming	1957	Emergency School Construction Aid Fund	Capital outlay

*These states have state grant and loan programs.

Source: Individual state plans in Appendix A of this report and interviews with state school officials.

State loans to school districts for debt service payments, if they are interest-bearing loans, add to the total cost of financing facilities. The chief advantage of debt service loans lies in their provision for maintaining limits on local debt service tax rates while permitting school districts to meet building needs. In Michigan a district is permitted to borrow for debt service payments all of the funds needed beyond the revenue a specified local millage will produce. There is a potential danger inherent in this practice--when districts do not immediately participate in debt service payments beyond a certain debt level, there may be a temptation to become fiscally irresponsible. State level controls on both building and loan programs are needed to assure that debt service payment loans meet their intended purposes.

Source and Control of State Loan Funds. The three basic sources of funds for state loan programs are state borrowed funds, permanent school funds, and appropriations from state general funds. State borrowing usually involves the sale of state general obligation bonds. Arkansas permits the State Board of Education to borrow up to $5 million from the Teacher Retirement System to supplement the permanent school fund resources used in their loan program. Table 5.6 shows the sources of funds and administrative units for each of the 14 states having loan programs for school facilities.

TABLE 5.6. SOURCES OF FUNDS AND ADMINISTERING UNITS FOR STATE LOAN PROGRAMS, 1968-69

State	Sources of funds	Administering agency
Arkansas	Permanent school funds and State Board of Education certificates of indebtedness to the teacher retirement system	State Board of Education
California	State bonds	State Allocation Board
Connecticut	State bonds	State Board of Education
Illinois	Appropriations from State General Fund	School Building Commission
Indiana	Permanent school funds, balance of a World War II bonus fund, appropriations	Common School Fund Building Commission-General Education Commission
Maryland	State bonds	Board of Public Works upon recommendations from the State Board of Education
Michigan	State bonds	State Department of Education
Minnesota	State bonds	State School Loan Committee
North Carolina	Permanent school funds	State Board of Education
North Dakota	Appropriations from State General Fund	State School Construction Board
Ohio	State bonds	State Department of Education
Virginia	Permanent school funds	State Board of Education

TABLE 5.6 (Continued)

State	Sources of funds	Administering agency
Wisconsin	Permanent school funds	Commissioners of Public Lands
Wyoming	Permanent school funds	Wyoming Farm Loan Board

Source: Interviews with state school officials and individual state plans in Appendix A of this report.

Table 5.6 shows that six states use bond sales to fund their local programs and six other states utilize permanent school funds. Only Illinois, North Dakota, and Indiana have used appropriations from state general funds. Indiana, which has two loan programs, uses permanent school funds for one program and a dedicated surplus from a World War II veterans bonus fund plus occasional appropriations for the other program. Arkansas uses both permanent school funds and funds borrowed by the State Board of Education as sources of funds.

State loan programs based exclusively on permanent or dedicated funds are usually inadequately financed. The amounts available are normally fixed and bear little relation to the needs of the school districts.

Appropriations for loan programs may or may not affect state tax rates or budgets. Obviously appropriations from general state revenues require increased state taxes; however, appropriations from existing funds, particularly investment or surplus funds, may not require additional revenues. Appropriations from general state revenues are more flexible than those based on fixed amount funds but may lack stability due to political pressures.

Loan programs that include the use of state general obligation bonds have the greatest potential for adequate funding. State bonds may be amortized by local unit debt service payments with little, if any, impact on state tax rates or budgets.

Table 5.6 shows that six of the 14 states place the control of their school loan program directly with the state board or state department of education. Special control boards are used in California, Illinois, Indiana, Maryland, Minnesota, North Dakota, Wisconsin and Wyoming. Membership on the special boards often includes representatives of the state department of education. Special boards frequently act only on recommendations from the state department of education.

State Loan Programs and Debt Limits. State imposed limits on local debt may take the form of a fixed percentage of taxable property or of a limitation on local tax rates. Legislatures have been reluctant to change or remove these limits for various reasons. Constitutions would have to be changed in the loan program states of Indiana, Illinois, North Carolina, North Dakota, Wisconsin and Wyoming.[15] Where debt limits apply to other units of government, preferential treatment for school districts may not be politically feasible. The lack of other controls on debt programs have also caused legislatures to be hesitant about tampering with existing debt limit regulations.

Mitchell's study concluded that debt limits on state and local borrowing do not restrict total debt issuance but in fact increase the cost of borrowing through higher interest costs on non-guaranteed debt.[16]

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[15] Advisory Commission on Intergovernmental Relations, State and Local Finances . . ., Washington, D. C., November, 1968, pp. 146-151.

State loan programs may or may not alleviate problems caused by state debt regulations. State loans are included as part of the debt limit on school districts set by the state in Arkansas, Minnesota, Virginia, and Wisconsin.[17] Maryland has no state-wide constitutional or statutory debt limits on school districts but loan applications are reviewed to determine ability to pay outstanding debt relative to selected sources of revenue.

In states where state loans are not considered part of a school district's legal debt limit, a high percentage of local debt may be a requirement for eligibility for a loan from the state. California requires that a district be bonded to 95 percent of its limit for eligibility. A school district in Illinois must have no more than $5,000 in unused bonding capacity before applying for a loan. In Ohio, loans are granted only for approved building programs that cannot be financed within the legal nine percent debt limit.

When debt limits on school districts have proven unduly restrictive, some states have found methods of providing funds that circumvent the letter of the law. A Veterans'

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[16] Mitchell, William E., The Effectiveness of Debt Limits on State and Local Government Borrowing, The Bulletin, Institute of Finance, Graduate School of Business Administration, New York University, p. 46.

[17] Refer to the individual state plans in Appendix A of this report.

Memorial School Construction Fund loan in Indiana is interpreted as an advance on state aid payments for current operations. Repayment, in the form of reductions in state aid for current operations may occur over a period of twenty years and the lost state aid is replaced locally by revenue resulting from higher tax rates. There is no impact on the two percent constitutional debt limitation since the loan is not considered a "debt." North Dakota, Illinois, and Wyoming avoid the technical concepts of debt by classifying loan payments as rental costs to be paid out of the current operation budget.

Any loan program which incorporates a method of bypassing debt or tax limits serves to increase the fiscal capacity of a district to meet its building needs. Where such programs are adequately funded, they have proven to be a great benefit to school districts.

Requirements for Participation in State Loan Programs. Requirements for state loans to school districts vary considerably among the states. The summaries of state plans for financing capital outlay, in Appendix A of this report, cite the primary requirements of each loan program.

All state loan programs require local districts to submit applications for loans and to specify the method of repayment. Wisconsin's program is unique in that school district need is not a factor in the granting of a loan. Local indebtedness requirements for loans in California, Illinois, and Ohio programs were mentioned in the previous section. Either directly or indirectly the existing debt of a school district is a factor in determining eligibility for state loans in all 14 states except Wisconsin.

Loan programs provide a means for aggressive state departments of education to influence the structure and function of education. It appears that more states should consider school district reorganization needs in their loan program criteria. Determination of needs, school plant approval, and a review of a district's financial position are reasonable requirements for state loans if states are to assume responsibility for the quality of educational programs.

Amount and Significance of State Loan Programs. The significance of a state's loan program can be evaluated relative to its intended purpose or relative to its impact on the total school building finance program. Table 5.7 shows the amount of state loans outstanding in 1969, the loans committed in 1968-69, other long-term debt contracted by school districts in 1968-69, and the percent of loans to new debt during 1968-69.

Table 5.7 shows that state loan programs provide only a small percentage of the total funds required for school facilities. In individual states the range of percentage of loan financing to total borrowing for facilities varies from less than five percent in Indiana, Michigan, Minnesota, and North Carolina, to over 36 percent in Arkansas and Virginia.

TABLE 5.7. STATE LOANS FOR SCHOOLS OUTSTANDING - 1969, LOANS COMMITTED, OTHER SCHOOL PURPOSE LONG-TERM DEBT CONTRACTED, AND PERCENTAGE OF LOANS TO NEW DEBT DURING 1968-69

State	Loans	Long term debt, 1968-69			State loans as a percentage of total new debt
		State loans committed	Other	Total	
Arkansas	$ 5,112,294[a]	$ 1,778,273	$ 3,000,000	$ 4,778,273	37.2
California	1,550,000,000	42,700,000	312,481,000	355,181,000	12.0
Connecticut	---------	---------	32,340,000	32,340,000	----
Illinois	18,000,000		129,877,000		
Indiana*	44,728,093	3,786,000	120,552,000	124,338,000	3.0
Maryland	193,769,647	705,000	75,550,000[b]	76,255,000	9.2
Michigan	22,616,349	8,386,925	186,710,000	195,096,925	4.3
Minnesota	29,522,851	1,773,269[c]	119,653,000	121,426,269	1.5
North Carolina	3,600,000	586,000	47,480,000	48,066,000	1.2
North Dakota	6,783,603	950,000	2,515,000	3,465,000	27.4
Ohio	77,477,869	17,522,450	108,887,000	126,409,450	13.9
Virginia	90,000,000	9,943,677	17,420,000	27,363,677	36.3
Wisconsin	40,000,000	4,500,000[d]	61,785,000	66,285,000	6.8
Wyoming	764,354	---------	2,141,000	2,141,000	----

[a] Includes school bus loans.
[b] Includes bonds sold by school building corporations.
[c] Includes debt service loans of $423,269.
[d] An approximate amount.

*Including debt of school building corporations.

Source: Individual state plans in Appendix A of this report.

Most loan programs are designed to aid school districts with needs beyond normal or legal capacity to finance. When state loan programs are considered on the basis of fulfilling that purpose, it seems probable that they are highly significant. There is little doubt that the programs have served to aid the most critical facility needs of school districts. Need, however, exists on a continuum. If state loan programs are an advantageous method of providing local school facilities, then adequate funds should be available to provide for satisfaction of a greater share of the needs.

Interest Rates for School Purpose Bonds and Loans. Rates affect the total costs of school facilities. A net interest cost of five percent on a 30-year serial bond issue can require interest payments approximately equal to the principal amount of the issue. Interest rates of seven percent and higher for school purpose bonds are not uncommon on today's market. One measure of the efficiency of state loan programs is a comparison of the interest rates for borrowing by alternative methods. Table 5.8 shows net interest costs for school district bonds and interest rate limits on state loans in the 14 loan program states. Data from the Office of Education[18] shows that the net interest costs of school purpose bonds sold in 1968-69 by the states averaged 4.02 percent while those sold by school districts averaged 4.83 percent. School building authority bonds typically command higher interest rates than either state or local general obligation bonds; the fiscal 1969 net interest cost averaged 5.32 percent.

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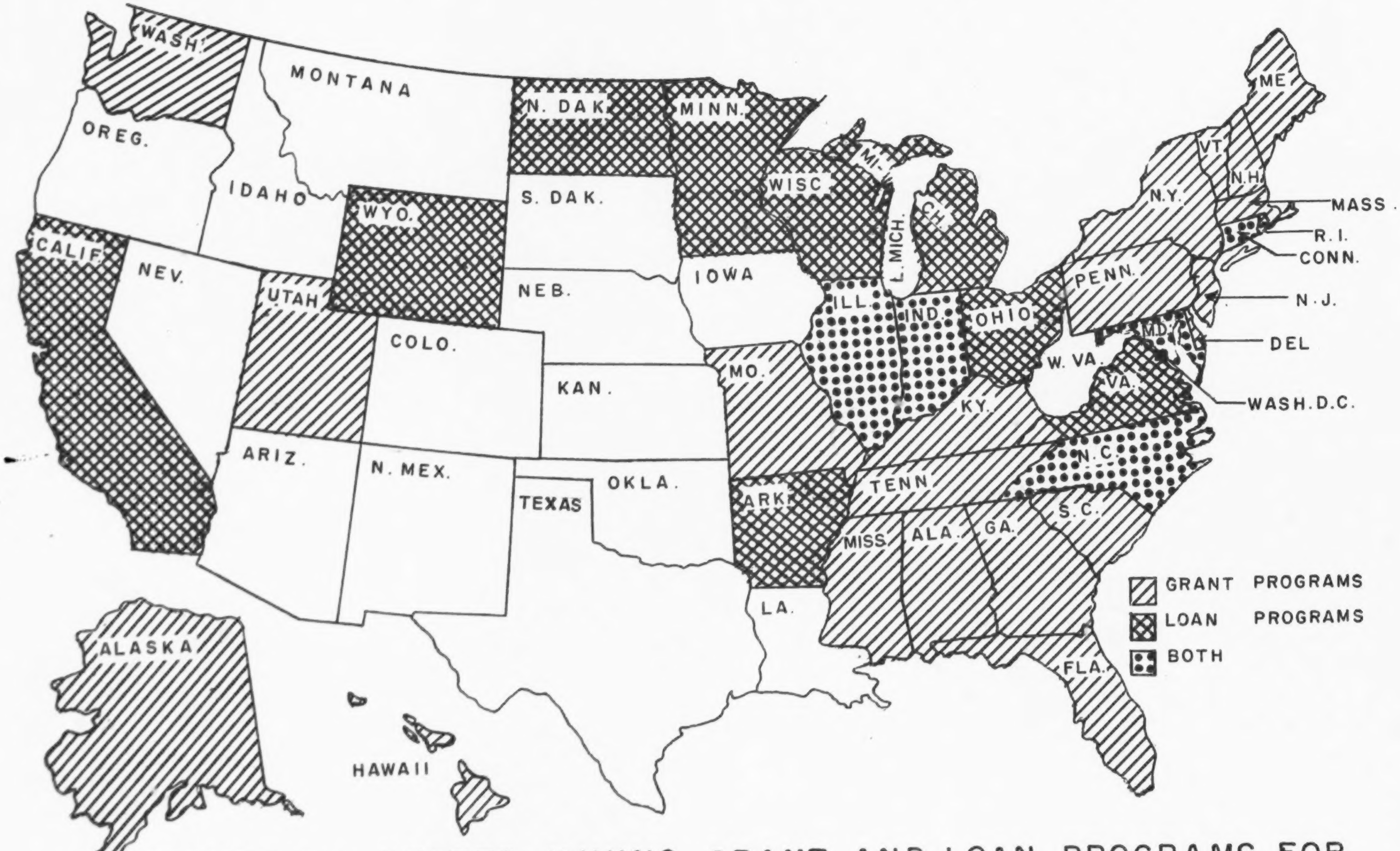
[18] Barr, Richard H., National Center for Educational Statistics, Bond Sales for Public School Purposes, 1968-69, Office of Education, Washington, D. C., 1970.

Table 5.8 shows that interest rates charged or chargeable to school districts for state loans vary from zero percent to six percent. California, Illinois, Ohio, and Wyoming charge no interest on loans. In those states that fund their programs in whole or in part by borrowing, this absorption of interest costs by the state represents a form of state grant to the school districts.

The data in Table 5.8 clearly show that school districts usually can obtain funds for school facilities through state loan programs at substantially lower interest rates than they can by marketing their own bonds.


WASH.
OREG.
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IDAHO
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WYO.
UTAH
COLO.
ARIZ.
N. MEX.
N. DAK.
S. DAK.
NEB.
KAN.
OKLA.
TEXAS
MINN.
IOWA
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S.C.
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VA.
W. VA.
MD.
PENN.
N.Y.
VT.
N.H.
ME.
MASS.
R.I.
CONN.
N.J.
DEL
WASH.D.C.
ALASKA
HAWAII
▨ GRANT PROGRAMS
▩ LOAN PROGRAMS
⁙ BOTH

FIGURE 5.1. STATES HAVING GRANT AND LOAN PROGRAMS FOR CAPITAL OUTLAY, 1968-69

Summary of State Loan Program Pros and Cons

Pros	Cons
1. Funds are made available when needed, to the extent that funds are available, by increasing the fiscal capacity of school districts.	1. The tax base for repayment of loans is not broadened.
2. State loans are generally more economical than local borrowing.	2. Loan program funding may be too limited to meet other than most critical facility needs.
3. Local millage for debt service can be limited by state loans for debt service.	3. Objective criteria for awarding loans are not perfectly developed.
4. Loan qualification criteria can permit systematic facility and school center planning at the state level.	4. The loan program is subject to misuse without strong state standards.
	5. Local control may be weakened through loan requirements.

TABLE 5.8. NET INTEREST COSTS OF SCHOOL DISTRICT BONDS AND INTEREST RATES OF STATE LOANS IN STATES HAVING SCHOOL LOAN PROGRAMS, 1968-69

State	Net interest cost of school district bonds, 1968-69	Interest rate limits on state loans to school districts
Arkansas	4.96	6%
California	4.67	No interest rate
Connecticut[a]	4.26	4%
Illinois	4.86	No interest rate
Indiana	4.76	1% - Veterans Memorial Loans 3.375% - Common School Fund loans
Maryland[b]	4.79	Basis of cost of state borrowing
Michigan	5.02	Basis of cost of state borrowing
Minnesota	5.45	Basis of cost of state borrowing
North Carolina	4.23	4.5%
North Dakota	5.07	2.5%
Ohio	4.83	No interest rate
Virginia[b]	4.21	3%
Wisconsin	4.77	4.5%
Wyoming	4.93	No interest rate

[a] Bonds for school purposes sold by municipalities.
[b] Bonds for school purposes sold by the counties.

Source: Individual state plans in the appendix of this report and Richard H. Barr, Bond Sales for Public School Purposes, 1968-69, National Center for Educational Statistics, Office of Education, Washington, D. C., 1970.

School Building Authorities

Another device used to facilitate school construction in several states is the school building authority. This financing arrangement may operate at either the state or local district level; for the sake of convenience both types are discussed in this chapter.

A public authority is a "corporate body authorized by legislative action to function outside the regular structure of government in order to finance, construct, and operate revenue producing enterprises."[19] School building authorities finance and construct but do not operate the facility. Since the authority is not a governmental agency, state and local debt limits need not apply.

A 1959 Office of Education definition stipulated that an authority is an agency which obtains funds by sales of revenue bonds. Hutchins and Deering defined an authority as "a public or quasi-public corporation having power to perform some or all of the following functions without pledging the faith and credit or tax revenues of a governmental unit: issue authority bonds for public school purposes, construct public school buildings, lease public school buildings to local public school administrative units, and transfer title to such units."[20]

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[19] Council of State Governments, Public Authorities in the States, July, 1953, Chicago, Illinois, p. 3.

[20] Hutchins, C. D., and Deering, E. C., Financing Public School Facilities, United States Office of Education, Washington, 1959, p. 199.

Regardless of definition, authorities and similar agencies have proved to be flexible fiscal devices. Funds have been obtained from legislative and local appropriations, state permanent and retirement funds, and sales of stock, debentures, and revenue bonds. Lease and lease-purchase contracts with local school districts provide the revenues from which the authority or similar agency meets its repayment and interest requirements.

State school building authorities were first used during the years 1947 through 1951 in an attempt to expedite local school construction. The availability of funds in the state treasury and in the municipal bond market, and the possibility of immediate access to these funds, spurred the enactment of state school building authority legislation in Pennsylvania in 1947 and in Georgia, Maine, and Indiana in 1951. The Indiana State School Building Authority has never operated.

In addition to the state school building authorities, agencies were created in at least four other states which are customarily classified as loan fund agencies but which operate in similar manner to a state school building authority. Illinois, North Dakota, and Wyoming advance construction funds to local school districts through such an agency. Virginia has a school fiscal agency which purchases the bonds of local school districts. Lease-rental contracts with local school districts provide the needed revenues for repayment of principal and for interest payments.

Florida, by constitutional amendment, made it possible to earmark a specified portion of motor vehicle registration fees as security for state revenue bonds sold by and for the county school districts, thus bypassing both state and local debt limits. The 1969 Florida constitution, while generally excluding state tax revenues as a source of payment for revenue bonds, specifically retained the provisions for school construction revenue bonds discussed above and also provided for pledging the full faith and credit of the state without a vote of the electorate.

The use of authorities for school building financing is a relatively new fiscal device, although tunnels, ports, bridges, turnpikes, and office buildings have been constructed by nongovernmental agencies since the turn of the century and rental payments from tax funds have been recognized as an acceptable source of revenue for such projects since 1909.

Local Authorities

Authority type financing by local holding companies or school building corporations was authorized in Indiana in 1928 and in Kentucky in 1934. Pennsylvania authorized local school building authorities in 1955, paralleling a municipal authority act in 1928. A number of other states have used local authorities to a limited extent. One of the most recent local school building authorities is the New York City school building authority.

The New York City Educational Construction Fund provides for construction of elementary and secondary public schools in combined occupancy buildings. The state-authorized public benefit corporation is operated by nine trustees and has three principal objectives. The corporation provides for maximum combined use of land, provides a new source of financing outside the city's capital budget, and reinforces the economic and social vitality of commercial areas and residential neighborhoods.

The fund uses conventional methods of financing public facilities but provides a new dimension in its provisions for combined occupancy structures. Complexes built under this plan will be owned jointly by the fund and by the developer. The city eventually becomes the owner of the school portion of the structure. The fund will sell tax-exempt bonds and bond anticipation notes while the developer will finance his share by using conventional or other sources of mortgage funds.

The fund will have a capital reserve fund but also will have a first lien on state school aid to New York City, which should strengthen the position of its securities in the municipal market. Three sources of revenue will be available: payments for sale of air rights, payments by the developer in lieu of taxes, and rental payments for the school. Bonds are limited to 40 years and notes to five years; these securities are legal investments for all organizations authorized to buy state obligations.

The fund is expected to become an important means of creating economic, social, and physical renewal within New York City as well as a feasible means of funding public school construction. Ten structures were reportably under construction in 1969.

A 1969 Florida act authorizes district school boards to enter into lease and lease-purchase school building contracts for grounds and buildings for school purposes with private individuals and corporations. Prior approval by the State Board of Education is required. Length of term is limited to 30 years. Details of state provisions for school building authorities may be found in Appendix A of this report.

Implications

Authorities have proved to be a flexible arrangement for financing construction of joint school buildings, regional high schools, and junior and community colleges. This method of financing recognizes the fact that the local property tax is only one of several sources of school revenues and bypasses many archiac limitations on debt and on interest rates which have become associated with the property tax. State authorities have the added advantage of enabling partial substitution of state for local credit.

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One may argue that more direct methods of bypassing debt limits are available to states. Among these are constitutional amendment, revision of statutes, authorization of use of current funds, state loan plans, and state grants. Appropriate agencies can be created in any state to administer a combination of state, local, federal, and private funds. Buyers of municipal bonds, however, prefer general obligation bonds, revenue bonds, and first mortgage bonds if their funds are to be made available.

Table 5.9, compiled from an annual Office of Education series concerned with bond sales for public school purposes shows that revenue bonds have been issued in 16 states since fiscal 1960 by school building authorities, state or local, or by some agency other than a governmental body. Georgia, Florida, Indiana, Kentucky, Maine, New York, Pennsylvania, and Virginia have legally constituted school building authorities, state or local, which provide funds principally by means of revenue bond issues. Other states listed have occasionally issued small amounts of revenue bonds for specific projects, but revenue bonds should not be considered as significant sources of school building funds in these states.

TABLE 5.9. REVENUE BOND SALES FOR SCHOOL BUILDING PURPOSES, BY BUILDING AUTHORITIES OR SIMILAR AGENCIES, 1959 THROUGH 1969

State	Fiscal year									
	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969
Alabama					X	X	X	X		
Arizona					X	X				
California				X	X	X		X		
Connecticut								X		
Georgia			X			X		X	X	X
Idaho					X					
Indiana	X	X	X	X	X	X	X	X	X	X
Illinois	X									
Kentucky	X	X	X	X	X	X	X	X	X	X
Louisiana				X						
Michigan				X		X				
North Dakota						X				
Pennsylvania	X	X	X	X	X	X	X	X	X	X
Texas	X		X	X	X	X				
Wisconsin		X								
Virginia									X	

Source: Barr, Richard H., Bond Sales for Public School Purposes, National Center for Educational Statistics, Office of Education, Washington, D. C. The annual series dates from 1959-1960 and includes sales of revenue bonds by school building authorities and occasional sales of revenue bonds by other than a governmental agency.

Table 5.10 shows the amounts, percentages of school bond sales, and net interest costs of revenue bonds and general obligation bonds, as reported for 1968-69. These are the states which have school building or fiscal authorities which utilize revenue bonds as a significant source of school construction funds. Revenue bonds result in higher net interest costs than do general obligation bonds.

TABLE 5.10. AMOUNT, PERCENTAGE OF TOTAL SALES, AND NET INTEREST COST OF SCHOOL REVENUE BOND SALES DURING 1968-69, IN SELECTED STATES

State	Amount of sales in millions		Revenue bond sales as a percentage of total bond sales	Net interest cost of	
	Revenue bonds	School bonds		Revenue bonds	School bonds
Georgia	$ 15.2	$20.6	42.5	5.02	4.91
Indiana	110.0	9.6	92.0	5.11	4.76
Kentucky	60.0	0	100.0	5.54	0
Pennsylvania	266.7	60.9	81.4	5.38	4.78

Source: Barr, Richard H., Bond Sales for Public School Purposes, 1968-69, National Center for Educational Statistics, Office of Education, Washington, D. C., 1970.

At least four reasons may be given for this differential. Revenue bonds do not involve the full faith and credit of a governmental agency, even if it is pledged by statute. The municipal market, having a shortage of available funds, prefers full faith and credit bonds even at a lower net interest cost. Revenue bonds are usually sold for a relatively long term and are customarily over and above the established debt limit for governmental agencies. Federal policy has restricted the amount of revenue bonds that may be purchased by certain commercial institutions, thereby limiting available buyers.

The 1969 proposal of the Treasury Department to tax interest income on municipals in certain instances introduced an element of uncertainty in the municipal bond market which was reflected in increased net interest costs of all issues and tended to discourage prospective buyers. This proposal, although well intended, definitely proved detrimental to municipal bond sales, particularly to revenue bond sales in late 1969.

Advantages. States which have widely used school building authorities at the state, municipal, and local level cite several advantages which have been experienced from use of this means of financing construction.

Debt limits, tax rate limits, and other constraints which state and local governments have experienced because of constitutional and statutory restrictions can be effectively bypassed by authority financing. Flexible mixtures of state, local, federal, and corporate funds can be more readily effected by an agency than by state and local governments.

Retirement funds, foundation grants, and permanent school funds can readily supplement state and local appropriation and revenue bonds as sources of funds for authority financing. Lease-rental payments can be included as expenditures approved from proceeds of state debt service and capital outlay grants. Cooperative state and local sharing of lease-rental payments also can provide effective local tax relief.

State guarantees of local district lease-rental payments and mandatory requirements for local tax rates sufficient to meet the local share of rental payments has, at least until recently, resulted in reasonable net interest cost on revenue bond issues.

Disadvantages. State, municipal, local, and corporate authorities have proved quite valuable as a means of financing public school construction in some states, particularly when local lease-rental payments have been supported by state grants from nonproperty tax sources. Disadvantages to this type of financing should be noted, varying in degree with the legal provisions in the 16 states which have reported some use of authority financing since 1960.

An authority, operating as a quasi-governmental agency can be used under certain circumstances to obviate state and local school issues regarding taxation, school revenues, and expenditures.[21] An authority may include costs resulting from profits, fees, and taxation -- thus increasing the cost of facilities. Experience has shown that tax free nonprofit state and local authorities customarily issue revenue bonds which, by the very nature of this type of security, result in higher net interest costs than if full faith and credit securities were issued. Authorities, unless accompanied by a variable state grant program for capital outlay or debt service, do little toward meeting the basic problem faced by districts having weak local fiscal ability.

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[21] Johns, Roe L., and Morphet, Edgar L., The Economics and Financing of Education, 2nd edition, Prentice-Hall, Inc. 1969, pp. 386, 402.

CHAPTER VI

FEDERAL PARTICIPATION IN FINANCING PUBLIC SCHOOL FACILITIES

The historical pattern of Federal participation in funding elementary and secondary education indicates a tendency toward narrow-based programs designed to serve a special need perceived to be in the "national interest" rather than to provide direct support for broad-based operational facets of day-to-day school operation. Federal support programs for local school district capital outlay have followed this general principle, for capital outlay funds have been made available only when associated with national interest programs, and even then often on a restricted and limited basis.

Federal interest in public elementary and secondary education predates the Constitution, as evidenced by the enactment of the Ordinances of 1785 and 1787. Under the 1785 act a portion of the land in each township was dedicated to the maintenance of public schools. All of the contiguous 48 states except the original 13 and Kentucky, Maine, Vermont, West Virginia, and Texas participated in the Federal land grants for schools. (These 18 contained no Federal lands.) Even this early action may have been in the "national interest," for it has been suggested that the need to dispose of public lands may have played an influential role in the enactment of this legislation.[1] This first instance of Federal support does not provide support for the statement that "federal aid brings federal control," for there is no evidence to support the contention.

During the Civil War period Congress enacted the next significant educational legislation - the Morrill Act in 1862. This action affected public higher education institutions with the proviso that the funds derived from the land grants were to be used for the establishment of agricultural and mechanical arts colleges which also were to teach military science and tactics. In contrast to the earlier action of Congress this legislation set the pattern for the special purpose grants which were to emerge as the continuing pattern for the Federal interest in education. Justification for this position is often traced to conditions which relate to the "national interest" or the "general welfare." This latter point may be more vital than the former, for the legal basis of Federal educational programs is often traced to the general welfare clause of the Constitution.

Following the Ordinances of 1785 and 1787 more than a century elapsed before Congress enacted special purpose legislation in support of public elementary and secondary education. The goal of this legislation was to stimulate the development of vocational programs in secondary schools. First action was taken in 1917 with subsequent expansions and extensions continuing through the Vocational Education Act of 1963 and its subsequent amendments. Experience indicates that the "stimulation" function was well served, for the federally-supported vocational programs became an integral part of the offerings in secondary schools and resulted in a redirection of the secondary schools to encompass vocational training as well as preparation for entry into colleges and universities. These programs are often used as an example of subtle Federal control to illustrate the impact which voluntary special purpose programs and grants can have on local schools, even though few would question the positive force which these programs have been in the development of comprehensive secondary schools.

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[1] Knezevich, Stephen J., Administration of Public Education, 2nd edition, Harper and Row, New York, 1969, p. 177; Tiedt, Sidney W., The Role of the Federal Government in Education, Oxford University Press, New York, 1966, p. 16.

The Vocational Act of 1963 Congress expanded the provisions of earlier acts to encompass occupational training for persons of any age or level in any field of work which does not require a baccalaureate degree. Implementation of the new provisions resulted in the construction of vocational wings to new and existing facilities as well as in the construction of vocational schools. The Act has been administered through state education agencies, and local districts are usually required to match the Federal support with local resources.

During the depression of the 1930's public school buildings were constructed through Federal public works programs; this activity provides another example of a national interest (attack on the unemployment problem) on the part of the Federal government which resulted in a program which aided local school districts. The merger of the need to resolve the unemployment problem with the need for replacement of obsolete school buildings resulted in the Federal government becoming involved in capital outlay programs in local school districts.

Between 1933 and 1943, about 12,500 public school buildings were partially financed by the Public Works Administration and the Works Project Administration. The Federal contribution has been estimated at $611 million. The Civil Works Agency and the Federal Relief Administration spent an estimated additional $63.5 million on public school construction and improvements.[2]

The work of the Reconstruction Finance Commission constitutes another example of Federal assistance with construction loans being provided for states and local governmental agencies. During World War II one title of the Lanham Act provided funds for local public construction and the Federal Works Administration constructed buildings and leased them to local school districts. Subsequent legislation in

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[2] Quattlebaum, Charles A., Financing Public School Construction, Printed for use of the Committee on Education and Labor, 81st Cong., 2nd Sess., Washington, D. C., U. S. Government Printing Office, 1950, pp. 17-21.

1944 and 1949 provided loans to states for postwar construction planning.[3]

Enactment of the Lanham Act in 1941 constituted an attempt to provide relief in lieu of taxes for local school districts which had lost substantial amounts of real estate through government purchase or had significant increases in enrollments attributable to defense production installations or military bases. This legislation has been extended through Public Law 815, which has been the source of funds for capital outlay support for local districts eligible for "impacted aid." Eligibility for aid through this program is computed through a formula based on need and the number of school children whose parents are employed in defense installations. The amount of funds available through this program has fluctuated since enactment because of varying national emergencies such as the conflicts in Korea and Viet Nam; however, large numbers of local districts have never been eligible for this financial support. This program might also be categorized as special purpose and in the national interest. Rather than offering promise for some type of continuing general assistance for local school districts, this program appears to be on the decline, for construction aid was approximately $50 million during fiscal year 1965 but had declined to approximately $35 million in fiscal years 1968 and 1969.[4]

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[3] Morphet, Edgar L.; Johns, Roe L.; and Reller, Theodore L., Educational Organization and Administration. Prentice Hall, New York, 1969, p. 222.

Another example of special purpose aid is found in the annual appropriations for restoration or repair of educational facilities seriously damaged by natural disasters. The appropriation for this program is not large, but it does provide needed immediate relief to areas devastated by hurricanes, flood, earthquakes and other natural disasters. As soon as a county has been declared a "disaster area" by the President, its public schools are eligible for unmatched Federal funds for removal of debris and repair of school sites; replacement, restoration or repair of school facilities repair or replacement of equipment, supplies and books; and leasing of temporary school facilities. Insurance proceeds or other funds available to cover these items are deducted from the Federal aid. Funds are allocated through regular congressional appropriations. Under the provisions of this legislation approximately 330 applicants have received about $11.5 million as a result of 63 disasters in 21 counties. Hurricane Camille in the fall of 1969 probably resulted in an additional $5 million in aid under this program.[5]

In addition to programs administered through the Department of Health, Education and Welfare, the Department of Interior is responsible for the education of Indians residing on reservations. Appropriations for both current operation and capital outlay were estimated at approximately $122 million in fiscal years 1968 and 1969.[6] In this instance the Federal government has assumed primary responsibility for educating a special category of citizens.

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[4] Federal Outlay for Education and Related Activities by Category, Agency, and Program; Fiscal Years 1968, 1969, and 1970, Unpublished working paper, National Center for Educational Statistics, Office of Education, Washington, D. C., 1969, p. 4.

[5] School Management, October, 1969, p. 28.

The Federal government has provided aid for education through provision of the Manpower Development and Training Act administered by the Department of Labor; the primary focus of this program is on continuing education. Funds are not available for large scale capital outlay programs since programs are usually short term and often involve the use of existing facilities.

The previous examples provide ample evidence of Federal support for both operational and capital outlay in local school districts, but on a limited or special purpose basis. One of the recurring problems has been the multiplicity of agencies and programs which have been involved in some fashion. Chase[7] reported in 1967 that at least six Federal agencies were responsible for administering some 43 laws providing financial assistance and services to local or state educational agencies in some phase of planning, site acquisition, or construction of school facilities. Even though the Office of Education may have been the agency responsible for the largest number of programs, duplication of effort and inefficiency have been lurking possibilities.

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[6] "Federal Outlay for Education . . .," op. cit., p. 4.

[7] National Council on Schoolhouse Construction, Schools Planned for the Community, Annual Proceedings, the Council, Columbus, Ohio, 1967.

Recently enacted legislation offers little hope for broad-based or general support for capital outlay in local districts: the National Defense Education Act and portions of the Elementary and Secondary Education Act have made some provision for limited construction, renovation or remodeling, but only when necessary to implement an expanded educational program.

Model Cities Programs and Community Development Programs administered under the Department of Housing and Urban Development have some incentives for construction of educational facilities through credits or inclusion of educational facilities in the total plan for urban improvement, but the funds available through this program so far have been very modest and primarily have been allocated for planning. In the past the typical pattern in programs of this type has been for the municipality to receive "credit" for construction of school facilities as a part of the local share so that the total eligibility for Federal aid might be expanded. As presently administered, neither of the programs offers any suggestion for satisfactory solutions of general school housing problems in urban areas.

Another source of aid with virtually no promise of general relief for problems and with very modest funds is found in the Civil Defense program for fallout shelters in public buildings. Again the pattern of providing incentives to meet a national need emerges as a vehicle for Federal support even if only on a very limited basis. Existing and past programs of Federal financial participation in financing public school facilities fail to reveal any general or broad-based programs in which any great number of school districts have had the opportunity to participate. Rather than providing examples of general eligibility for all schools, the programs seem to have been characterized by special regulations and narrow applicability.

Barriers to Federal Participation in Capital Outlay Programs

In an oversimplified fashion the barriers to broad-based Federal support for local district capital outlay programs may be grouped into two categories--philosophical and logistical. The philosophical barrier has its genesis in the Federal Constitution and in the constitutions of the individual states, for education traditionally has been viewed as a state function. The role of the Federal government has largely been one of data-gathering, reporting, and stimulating rather than of being an active partner in supporting the current operational costs of local schools. The fear that federal aid would bring federal control and the legal questions relating to the appropriate role of the Federal government resulted in limited and special purpose programs for almost 180 years until the enactment of the Elementary and Secondary Education Act of 1965. Even though this legislation might be characterized as a special purpose program for the educationally deprived, some facets do have general applicability. For this reason, some of the traditional questions concerning philosophical and legal barriers may have been negated.

In the late 1960's increased support emerged for revenue sharing on the part of the Federal government. The potential of various proposals as a means of solving financial problems has been minimal, for considerable sentiment has been expressed in favor of direct grants to states, and possibly cities, with those governmental units then determining how the funds will be allocated within their jurisdiction. Other governmental services could very easily exhaust the funds before the schools receive their share. In this instance the national interest concept seems to be directed more toward some type of property tax relief than toward resolution of educational finance problems.

The logistical problems have involved some rather complex considerations--administration; general or limited participation; and direct aid, guarantee, or subsidy programs. Direct administration of programs from the Federal level through the Office of Education to local school districts has been vigorously opposed by the chief state school officers and other groups who do not look with favor upon the development of a Federal educational bureaucracy; their concerns relate to the hazards of a permanent bureaucracy and the lack of administrative flexibility in the operation of programs. At the same time others who are also interested in adequate safeguards in the administration of federally supported programs do not look with favor upon decentralized administration of programs without sufficient controls to assure that funds are distributed equitably and in accordance with the intent of the original legislation. This latter concern has resulted in the development of state plans which must be approved by the appropriate Federal agency before funds are distributed to the state.

A prime example of a polar shift in administration of federally funded programs is found in Title III of the Elementary and Secondary Education Act; the Title was first administered and funded through the Office of Education with the state education agency serving in an advisory capacity, but subsequent amendments shifted the administration and funding of projects to the state education agency with the Office of Education playing only a very minor role after submission and approval of the state plan. At the outset the programmatic focus may have been upon national needs which were to be served through operational programs in local districts, but later developments resulted in the focus being directed toward state needs being served through local districts. The national developmental thrust encompassed in the original program was in essence fragmented in terms of the needs in individual states. Federal agency guidelines and communication problems comprise the principal problem in the centralized administration of programs, and fragmentation or dilution of the national interest aspects of a program become real possibilities in a decentralized administration.

The concepts of general or limited participation suggest the exclusion of certain states or the exclusion of certain districts within a state. Funds might be made available on a general basis through flat or equalized grants, or they might be restricted to those school districts with need as reflected through outstanding debt or through support of construction projects to replace insufficient or inadequate school facilities. Traditional arguments relating to flat grants versus equalized grants apply to this discussion as well as questions concerning the appropriateness of providing support for capital outlay in districts with no debt or no need for new facilities. Of course, decisions relating to this matter will be influenced by the amount of the appropriation provided for enacted programs.

Options other than direct aid through a grant program are available and may provide relief but not to the same extent as would a grant program. One alternative is found in a guarantee program which would provide relief for high interest rates through a Federal guarantee of the indebtedness. The underlying assumption is that such action would result in a more favorable interest rate. The Federal government could establish an agency which would function as a "loan bank" and guarantee the sale of the securities at a fixed rate of interest with the agency assuming any loss which would result from an unfavorable market. In one sense the Federal government presently is providing some relief of this type through the tax-exempt feature which presently applies to governmental securities. In each of the above examples the district would receive no benefits if it had no indebtedness, and the potential cost would be significantly less than with flat grant or equalization programs.

Two other potential barriers to acceptance and enactment of a broad-based program are found in the procedures used to determine the number of pupils upon which the allocation would be based and to determine the condition of existing facilities. If the funds are to be distributed on a head count basis, census data provide virtually the only acceptable source, but these data include all public and non-public school children and do not yield any information associated with average daily membership or average daily attendance. The decennial nature of the census and questions relating to its credibility pose additional problems.

Compatability and accuracy of data become significant problems when efforts are made to determine the facility needs on a state or national scale. State surveys and simple questionnaires could provide certain basic information relating to existing facilities and the ratios of school children to available classrooms. These data would present a pattern relating to the age, size and general condition of existing facilities, but the validity of the data might be questionable when responses relate to the buildings' functional efficiency or utility. Further problems are associated with the mobility of the general population which may contribute to a district having sound and functional, but under-occupied, buildings in one location and over-crowded facilities in another. State-wide data may not suggest a school housing problem, but intra-state school housing problems may be severe.

Action in the late 1960's by organized educational lobbying groups has focused attention on the need for advanced funding of educational programs to permit better planning on the part of local school districts. A wide variety of operational problems began to emerge when portions of the Elementary and Secondary Education Act were funded after the school year had already begun, and on a level lower than originally anticipated. Traditional patterns of Federal budgets and funding have not provided the type of predictability and security needed in the operation of continuing programs; therefore, different funding patterns would be essential if local school districts were to practice sound fiscal planning procedures.

Federal Government and National Interests

Even though the Federal government has made relatively few policy commitments in the area of public school construction, the Federal government does have some interest in seeing that adequate housing is provided for school children. The rapidly accelerating urbanization of our society and the increasing percentage of school age children attending school provide justification for Federal participation. For example, the population of high school age (14 to 17 years) has more than doubled from 1889-90 to 1969-70, but the enrollments in grades 9-12 have multiplied over 60 times.[8] Only the Federal government, unhampered by state boundaries and local jurisdictions, possesses the taxing flexibility needed to provide an equitable distribution of the funds required to build the needed schools.

The mobility of the population on an inter-state and an intra-state basis and the general condition of school facilities in inner cities have resulted in mounting needs in urban areas even though some statistics may indicate that school population growth curves for the nation are leveling off. This mobility coupled with the unequal distribution of wealth among states and school districts provides justification for Federal support for school facilities if a minimum floor of educational opportunity is considered to be a desirable national goal. Achievement of this goal within the framework of a decentralized educational system should not be viewed as an insurmountable hurdle, for the Federal government can assume a residual responsibility to provide needed funds to states in which resources are inadequate.[9] Even though the Federal participation may have considerable merit, basic political considerations may dictate some modification of a national equalization program in order to secure sufficient Congressional support.

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[8] Statistics of State School Systems, 1965-66, United States Office of Education, OE 20020-66, U. S. Government Printing Office, Washington, D. C., 1968, p. 7; Estimates of School Statistics, 1969-70, Research Division, National Education Association, Research Report, 1969-R15, Washington, D. C., 1969, p. 5.

One of the commonly supported roles of the Federal government through the Office of Education has been to provide funds for conducting research and development activities and also for disseminating the results to the states and local school districts. This latter function has continued to constitute a formidable hurdle because of the communications problem. However, various roles can be assumed by the Federal government to facilitate the construction of sound and functional school buildings.

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[9] *Paying for Better Schools*, Committee for Economic Development, New York, 1959, p. 39.

Continuing research and development activities should relate to improvements which might be made in construction planning processes, techniques, and materials and also to alternatives which will permit wider and more efficient utilization of educational facilities. One possibility in the latter area is to seek greater inter-governmental agency usage of facilities. Joint usage may not be feasible, but this does not preclude the possibility of greater inter-governmental cooperation in locating, planning, and scheduling capital outlay projects to identify potential zoning problems and to prevent undesired competition in the bond or construction markets. In its traditional research gathering and dissemination role the Office of Education can very logically assume leadership in identifying patterns and trends or devising models relating to these areas. Individual urban and rural areas often encompass portions of two or more states, and the resultant problems normally follow a national pattern, thus providing additional justification for Federal involvement.

Another seemingly appropriate research and development activity involves the development of new design solutions which will foster better utilization of educational and technological developments. Efforts supported through the Educational Facilities Laboratory and the Council of Educational Facility Planners (formerly the National Council on Schoolhouse Construction) have made significant impact, and sufficient information should be available from pilot programs to indicate the merits and problems associated with various approaches. Rather than each state subsidizing efforts and assuming responsibility for gathering and disseminating this information, the task could possibly be performed more economically and more efficiently by the Office of Education.

Even though Federal participation in capital outlay projects for local school districts has been virtually non-existent, various other non-school capital outlay programs have received significant Federal support at different times in history. Three primary examples are in the field of transportation--the original land grants to the railroads for the westward expansion, participation in airport construction projects, and the recent massive Federal support for the interstate highway network. Another example of a general participation program may be found in the assistance provided through the Hill-Burton Act for construction of hospitals. Estimates of the values of the land grants to the railroads have been as high as $1.4 billion. Aid for airport construction from 1933 through 1958 has been estimated as approximately $2.6 billion. The original authorization for the interstate highway system in 1956 was $46.2 billion and the costs are exceeding original estimates.[10] Appropriations under the Hill-Burton Act for approved projects exceeded

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[10] Sampson, Roy J., and Farris, Martin T., Domestic Transportation, Practice, Theory and Policy, Houghton-Mifflin Company, Boston, 1966, pp. 349-353.

$3.4 billion for the period between July 1, 1947, through June 30, 1969.[11]

Questions relating to local, state or national responsibilities do not seem to have prevented Federal participation in these programs, for they appear to be well established and continuing. Traditional incentive and equalization concepts common to state minimum foundation programs for education have also been reflected in these programs. The level of Federal support for the interstate highway program has been 90 percent of the cost of an approved program. Federal support is also provided on a sharing basis (50-50 and 25 percent federal and 75 percent local) for various other highway construction projects. The Hill-Burton Act provides for support ranging from 33 1/3 to 66 2/3 percent, with local ability being the determining factor.

Examples of accepted and seemingly successful Federal programs which have provided support for capital outlay are found in the original land grant college legislation which has been in effect for a century and in the recently enacted vocational legislation and Higher Education Facilities Act. One of the characteristics of the vocational legislation has been the requirement that each state submit a state plan which outlined the procedures to be used in administering the program. Federal agency guidelines were provided to assist the state in preparation of the plan. Upon its approval the state then assumed responsibility for program administration.

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[11] Hill-Burton Program Project Report, July 1, 1947-June 30, 1969, Department of Health, Education and Welfare, Public Health Service Publication, no. 950-F-3.

Grants and loans are provided by the Office of Education and Department of Housing and Urban Development for construction of college classrooms, laboratories, libraries and dormitories. Portions of the support have been shifted from direct Federal loans to interest subsidies on loans made to colleges by the private market. Estimates for 1970 indicate that $250 million may be supported through interest subsidies by the Office of Education.[12] Administrative questions relating to Federal control over institutional programs or Federal aid for non-public institutions seem to have been resolved in view of the general acceptance of this type of aid.

Feasible Alternatives for Federal Participation

Experience with previous related programs and consideration of the appropriate role of the Federal government in support of public school construction (capital outlay) programs suggest two alternative avenues for future Federal involvement. One choice would involve direct support for local school construction; administration would preferably be through state education agencies under the provisions of a federally approved state plan. The second and less costly choice would be indirect aid administered on a national scale, with states or local districts participating on an application or competitive basis.

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[12] "Federal Education Programs," Special Analyses Budget of the United States, 1970, Bureau of the Budget, Washington, D. C., U. S. Government Printing Office, January, 1969, p. 125.

The following examples of direct and indirect Federal participation should not be construed as an exhaustive discussion but as illustrative of the various possible programs.

Direct Support

Various programs could be initiated under this choice and mass participation would require substantial Federal support for school construction. To forestall the emergence of Federal administrative problems such direct support programs should be administered through state education agencies rather than through a centralized or decentralized Federal agency.

Grants-in-Aid. Federal grants on a per-pupil basis possibly constitute the simplest avenue for Federal support for public school construction, but funds might be allocated to districts with no debt or no facility needs or might be diverted to current expense categories. Grants to states could be administered on an approved cost or approved project basis, but adequate and consistent administration of this program would be beyond the present administrative capabilities of many state education agencies. The further investment of funds in additional staff for state education agencies might pose a problem in gathering support for passage of this program.

Federal grants-in-aid should be designed to accommodate the large differences in expenditure levels among and within states. An example may be found in the recently adopted Federal programs for aid to schools in relation to the number of deprived children they serve; aid has been given to school districts having low per capita financial ability or having high costs because of the nature of the clientele served.

A national task force has suggested that a good system of construction subsidies for education should have the following characteristics:[13]

1. Minimum building standards should be set on a per capita basis. The standard should cover both the quantity and quality of space, or may be set on an expenditure base if quality criteria cannot be determined.
2. Aid should be given only to those districts whose facilities do not meet the minimum standard.
3. Lump sum payments should be made to school districts which agree to bring their buildings

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[13] Based on a paper prepared by L. C. Thurow for the Office of Construction Service, Office of Education, June 19, 1969.

up to the minimum standards.

4. The size of the lump sum payments could be based upon the tax effort per $1,000 of personal income in excess of $800 per capita in the area under consideration.

One option would be to vary the initial grants in relation to the number of disadvantaged pupils served by the school.

The minimum building standard should initially be set low and gradually escalated. Thus the first money would go to those districts that are most in need and the farthest from the national norms. Aid should be limited to these districts so that the aid would be used in a manner which would serve to equalize the level of public services received. Aid to all districts would simply serve to widen existing disparities.

Variable payments rather than matching grants could be used for those districts which agree to bring their physical plant up to the minimum standard. This approach would create an incentive for efficiency in construction, but more importantly would not be characterized by the inequities associated with various grant programs.

Among the positive features of this program would be the encouragement of classroom construction to meet societal needs in the big cities, in suburbia, and in rural areas. Substantial annual grants of Federal funds from non-property tax sources would lighten the burden on local tax sources, principally local property taxation. Control of classroom construction could remain with the states.

Prior effort could be recognized in allocation procedures, but districts which have been fortunate enough to have met all classroom needs might be excluded from participation in the program. Local districts and states which have deferred construction of public elementary and secondary classrooms could benefit unduly by receipt of Federal grants. In the short-run grants have a bigger impact on the Federal budget than interest subsidies which are spread out over time; however, the return and relief for local school districts is more direct.

School Construction Aid Agency. Recent economic developments and the increasing tendency toward population concentration in urban centers provide support for the development of a school construction aid agency which would function as a massive Federal loan agency either to loan on a direct basis or guarantee loans made by the private sector. The relative cost of this option would be considerably less than a grant program, and some relief would be provided to all districts in a tight money market and to impoverished districts whose fiscal resources are not adequate to provide needed facilities. Past experience suggests that this program could function through a decentralized

Federal agency, but it could also function through state education agencies whose operational procedures had been approved in accordance with Federal guidelines. In the implementation of this approach the benefits of programmatic experience with the veteran loans and farm loans could be drawn upon in administering the program.

A loan program of this type may not provide the needed relief since state and local appropriation for school capital outlay must come from the same tax resources that are needed for current operation of the schools. These resources must also provide funds for capital outlays and current operations for other state and local governmental agencies, but loan funds can spread the burden over a period of years.

The municipal bond market cannot now provide the funds needed to meet the volume of municipal financing, and a powerful incentive could be provided for the establishment of a state loan program, loan agency, or fiscal authority for school construction in each state, since this might be a prerequisite for state participation in the program. Advances from a Federal Schoolhousing Agency should be made available only if a substantial amount of state and local funds were provided. Encouragement of construction of facilities for meeting social needs could be provided by increasing the base amount or the maximum amount per pupil for classrooms which are specifically used for these purposes by a fixed percentage, for example, by 50 percent. A state should be required to increase the loan to qualifying local districts by the same amount. Additional leeway for increased debt would be required for states and localities since their total indebtedness in 1970 exceeded $30 billion for school construction purposes.

A Federal construction loan program may have difficulty in bypassing state and local debt limits. A Federal loan program would need a major source of funds, presumably from appropriations, since Federal borrowing is now at an all time high. A Federal Schoolhousing Agency would probably be needed. A Federal construction loan plan would result in an increase in the need for state or local funds for debt service, and a loan program would increase the tax burden on state and local governments. Therefore, the relief for poor districts might be somewhat minimal.

Interest Subsidies. An agency similar to the above, but on a much smaller scale, and with less cost, could also be constituted to (1) provide interest subsidies for local districts or state agencies unable to market bonds at or below a prescribed interest rate, or (2) subsidize state and local education agencies for any additional interest cost accruing as a result of removal of the present tax-free status accorded these issues. The difference between the guaranteed rate and the market rate would be assumed by the Federal government and forwarded to the appropriate agency on an annual or semiannual basis depending upon the scheduled payment date. By exempting municipals from the income tax the present tax program subsidizes state and local governments. The subsidies are equal to the difference between the interest that state and local government would have to pay in the absence of the tax exemption and the lower rates that they actually pay.

Unless the guaranteed rate would be set considerably below the prevailing market, interest subsidies in addition to the present tax-exempt status for municipal bonds would be meaningful only to marginal school districts, i.e., those districts which have previously defaulted on bond payments. Regulations for the program would have to be drafted carefully to forestall the possibility of the program artificially inflating the marketable interest rate.

Revenue Sharing. Considerable support appears to be emerging for Federal revenue sharing with state and municipal governments, and school districts could logically participate in this porgram. Under a revenue sharing program a portion of the Federal income tax revenues could be returned to the states for general governmental purposes. Responsibility for devising distribution procedures would reside with each state legislature. States with a high percentage of enrollment in non-public schools would not be penalized; however, there is no assurance that public elementary and secondary schools would be beneficiaries under the program. This latter possibility could be corrected if the legislation included a public school incentive plan in which payments to a state would be made in proportion to expenditures for public schools.

One logical approach would be for a portion of Federal revenue receipts to be returned to each state on a per capita flat grant basis or through a percentage rebate based on Federal revenues derived from the state. Either approach could also be used for distributing funds to municipalities; however, considerable difficulty would be encountered in devising formulas assuring equitable distribution to the greater metropolitan areas including suburbs. Funds could be made available for capital outlay on either a grant or a project basis. Experience with previous Federal programs suggests that states or other agencies would be required to allocate and either expend or obligate funds during each fiscal year rather than placing them in reserve funds at either the state or local level.

Incentive Payments. In accord with the traditional national interest rationale used to justify Federal support for various facets of education, a system of incentive payments could be initiated to encourage the construction of specific facilities such as classrooms for special education, vocational education, science or early childhood classes. Vocational education programs and the National Defense Education Act provide illustrations of the application of this alternative, and these experiences would be invaluable in the design and administration of the programs. States and local districts with limited fiscal resources would be unable to receive maximum benefits through this approach unless it included some provisions for equalization. Use of a percentage or matching method of distributing the incentive payments would result in funds being allocated only to districts with sufficient funds to provide the local share, contributing to further disparity in school facilities among school districts with varying financial resources.

Payments in Lieu of Property Taxes. Military installations, defense production and the Federal government's role as a land owner have resulted in uncontrollable impact upon certain school districts with a loss of per pupil revenue potential for such districts. Continued Federal support for per pupil payments in lieu of property taxes seems clearly justified since the revenue generating potential has been reduced for local districts in these situations. If Federal support is to be withheld under the theory that education is a function of each state, the logical alternative would appear to be that schools would be permitted to tax the land owned by the Federal government.

of Interior is responsible for the education of Indians residing on reservations. Appropriations for both current operation and capital outlay were estimated at approximately $122 million in fiscal years 1968 and 1969.[6] In this instance the Federal government has assumed primary responsibility for educating a special category of citizens.

The Federal government has provided aid for education through the provisions of the Manpower Development and Training Act administered by the Department of Labor; the primary focus of this program is on continuing education. Funds are not available for large scale capital outlay programs since programs are usually short term and often involve the use of existing facilities.

The previous examples provide ample evidence of Federal support for both operational and capital expenses in local school districts, but on a limited or special purpose basis. One of the recurring problems has been the multiplicity of agencies and programs which have been involved in some fashion. Chase[7] reported in 1967 that at least six Federal agencies were responsible for administering some 43 laws providing financial assistance and services to local or state educational agencies in some phase of planning, site acquisition, or construction

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[6] "Federal Outlay for Education . . .," op. cit., p. 4.

[7] National Council on Schoolhouse Construction, Schools Planned for the Community, Annual Proceedings, the Council, Columbus, Ohio, 1967.

Indirect Support

Various approaches could provide indirect support with some programs resulting in significant aid for all districts and others being more related to research and developmental activities. As with the direct support discussion the following examples are designed to be illustrative rather than exhaustive.

State-by-State Survey.

To meet the continuing dual need for compatible and current data concerning school facility needs among states and for competent technical personnel to assist at the state level, a decennial survey could be supported with Federal funds. New data must be gathered periodically because emerging educational programs and technological advancements will contribute to rapid obsolescence of needs assessments made as of a given date. The total cost for this program would not be excessive, and the data output would provide a current assessment of needs on a regular basis.

Planning Grants.

Federal grants for determining needs and for planning elementary and secondary school facilities could strengthen and improve the ability of state and local educational facility planning. A systematic attack on problems associated with technological changes, migration and shifts of population, concentrations of population in urban and suburban areas, site location, specific educational needs, economic considerations, cost, optimum sizes, and flexibility to accommodate changes would be facilitated by orderly planning. An incentive could be given to foster cooperation of educational agencies with other governmental agencies in a greater development and use of land, particularly in areas where land is scarce and land values are high. Coordinated planning for comprehensive land use could be obtained through the joint use of air rights and joint school and commercial construction. Local district organization necessary for financing and constructing permanent school facilities at logical attendance areas would be enhanced. Incentives would be provided for viable methods of combined occupancy of school facilities and housing, commercial structures, and governmental service construction. A planning program can result in construction budget savings, and the Federal and state expenditure requirements would be modest.

For the program to be effective a state would necessarily have to restrict planning funds to adequately organized local school districts and would have to exclude inadequately organized districts from the plan. The effectiveness of cooperative planning would be dependent upon the attitude of other agencies.

Developmental Activities. Various types of special purpose aid could be used to stimulate the development of specific educational programs through support for lighthouse facilities which recognize learning and environmental interrelationships and technological developments, e.g., individualized instruction, large and small group instruction, special education, preschool or compensatory education. These programs would be limited in number and would not be designed for general participation or broad applicability.

Another appropriate developmental activity may be found in the area of facility design. Future developments in educational programs may be beyond present projection capabilities, but present knowledge concerning computer technology, audiovisual methodology and programmed learning has yielded information which suggests new approaches and creative decisions for school planners. Relatively few groups and individuals are engaged in research related to school facilities. Dissemination of data has been limited. Planning expertise in local districts has increased considerably in recent years, but local district planners must often focus on immediate problems to the neglect of research and developmental activities. As an effort to resolve this dilemma Federal funds could be used as incentives for support of design and construction of facilities which would be instructionally and program centered.

CHAPTER VII

PROGRAMS FOR FINANCING PUBLIC SCHOOL FACILITIES

Discussions in the previous chapters have provided considerable detail about existing methods of financing public school construction among the several states. In the statutory provisions and functional operation of various state programs, certain features have been identified which either aid or inhibit local school districts in their efforts to finance school construction, including funding of current projects and debt service.

As a result of the study of the recent history and current status of various programs, several major problems have been identified, and proposals have been formulated for the allocation of functional responsibilities among Federal, state, and local governmental agencies. Review of previous research in this area and an analysis of existing programs contributed to the identification of a group of basic assumptions which should provide direction in the development of viable models for financing public school construction.

In the latter portions of this chapter attention is devoted to the general recommendations appropriate for any program and to alternative programs which may be used to finance school construction.

Problems in Financing Public School Construction

In any general discussion of aid for public school construction throughout the nation two paramount problems emerge--first, many state aid plans are only token in nature, and several states do not provide local school districts with any financial assistance for school construction; second, the Federal government has not provided financial support for any general programs for school construction. Even though title for school buildings may legally reside with the state and education has historically and legally been considered a state function, the entire, or a major portion of, the financial burden for providing housing for educational programs and students has been placed upon the shoulders of the local school district in a great number of states.

This general pattern throughout the nation has resulted in a heavy drain upon local fiscal resources as a source of financial support for school construction. Various constitutional limitations and statutory provisions restrict the latitude available to the local school district by imposing constraints such as the following:

1. Unduly restrictive debt and tax rate limitations in some states, and wide variations among the states in these matters

2. Assessment practices in local districts which do not coincide with statutory or constitutional prescriptions, and wide variations in assessment levels among local districts which result in property tax bases unrelated to the real fiscal capacity (as measured by property value) of the several districts
3. A property tax base which is heavily relied upon for school construction funds, is not immediately responsive to changes in the economy as a whole, does not necessarily coincide with taxpaying capacity, and is regressive in terms of assumption of the burden
4. Voter reactions to property tax rates which suggest that psychological limits may have been reached and that rates may have reached confiscatory levels in many districts
5. An increase in voter rejection of school building referenda, unduly rigid voter qualifications, and provisions which require more than majority vote for passage thereby making it extremely difficult to obtain approval
6. An extremely rapid increase in school construction costs, without a uniformly corresponding increase in revenue potential from property taxes

7. State assistance plans which rely primarily upon loans to aid local districts in meeting school construction needs thereby having the effect of guaranteeing that these districts will remain fiscally impoverished
8. Overdependence upon the property tax, which is also heavily relied upon to support other local governmental functions
9. School district geographical boundaries which result in the isolation of commercial and industrial taxable wealth thereby creating residential areas with low revenue generating capacity
10. Variations in local district facility needs and fiscal abilities which are so extreme that many districts could not meet their needs even if all legal restrictions on local debt and tax rates were removed
11. School districts which frequently must delay needed construction until sufficient funds have been obtained - by then prices may have risen sharply
12. Recent experiences with a growing economy, tight money market, and high interest rates which have discouraged local districts from initiating needed construction projects

13. Fiscally weak districts confronted with the double penalty of higher interest costs on borrowed funds and higher tax rates to service debt.

In addition to the legal issues outlined in the previous discussion, the effectiveness of capital outlay support programs is further reduced by their inability to respond to problems such as the following:

1. Variations in population mobility among school districts within states
2. Population shifts within school districts to urban and suburban areas which result in relocation of school age population and additional school facility needs even though the total needs of the school district may appear not to have changed
3. Obsolete and instructionally outmoded facilities in urban and rural areas
4. Variations in material, labor, and site costs within a state
5. Variations in construction costs as related to the educational program to be housed, e.g., special education, compensatory education, vocational education, or general elementary and secondary programs

6. School capital needs for most school districts which do not occur on an annual generally predictable basis as do current operation expenditure requirements
7. Tremendous variations in school facility needs among school districts within states.

State constitutional and statutory provisions and state agency regulations frequently function in a negative fashion and fail to provide positive direction or permit responsible, but flexible, administration of capital outlay programs. Typical problem areas are as follows:

1. Restrictive fiscal procedures which prevent local school districts from allocating available funds for school construction in the most economical and/or efficient manner
2. Fiscal accountability procedures which fail to provide adequate assurance that school districts will not divert school construction funds to other purposes
3. Fixed debt service procedures which require that equal portions of the debt be repaid each year
4. Limitations on investment of funds which result in low returns.
5. Lack of competent technical personnel to assist local school districts in school facility planning and related fiscal matters

6. In many states, continued operation of local school districts which frequently do not meet minimum standards in terms of enrollment or program adequacy and fiscal resources.

Basic Assumptions for Defensible Models

Following the study and analysis of the basic research related to financing school construction programs and the identification of the previously stated problems, basic assumptions were identified. These served as the initial guideposts in the formulation of the general recommendations and in the development of the alternative programs of models for financing public school facilities. These assumptions have not been empirically validated, but are based upon the research in this report, general writings in the fields of school administration and public finance, and experiences of the authors. Efforts were made to keep the statements brief and succinct; however, their brevity does not diminish their importance, for they serve as the cornerstone for the remaining portions of this chapter. The basic concepts are as follows:

1. The primary purpose of school facility financing programs is to provide funds for housing educational programs which will meet the diverse needs of the total school population.

2. The state has the primary responsibility for establishing school facility standards.
3. Educational facility needs are derived from locally-determined, state-approved educational programs.
4. A mixture of Federal-state-local funding is necessary. Interstate and intra-state variations in facility needs and fiscal capacity must be accommodated in allocation procedures.
5. Retention of fiscal leeway is a necessary condition for the proper functioning of any school facility financing program, whether the source of funds be local, state, or Federal.
6. Equalization through intergovernmental grants-in-aid is an essential feature of viable capital outlay programs. State loan funds and building authorities can be used to enable fiscally distressed districts to meet immediate facility needs. Emergency allocations for relief of distressed districts and similar stop-gap measures only provide temporary relief, and should not be considered as an adequate state plan.

7. Permissive short and long-term borrowing from varied governmental and nongovernmental sources and appropriations from all levels of government are options which must be available to local districts in planning facility financing programs.
8. Long-range planning for constructing and financing school facilities is an essential element in fiscally sound local school district construction programs.
9. Provisions of school facility financing programs should be responsive to changing economic and sociological conditions, but also should be sufficiently stable and predictable to facilitate long-range planning.

Logical Functional Responsibilities by Governmental Levels

For the three-way partnership of local, state, and Federal participation in financing public school facilities to be effective and responsible, certain responsibilities logically should be assumed by each level of government. In the process of allocating these responsibilities extreme care has been exercised to assure that the appropriate legal responsibilities of each level of government would not be eroded or subverted.

Federal Responsibilities. Tradition and the legal structure of public elementary and secondary education dictate that the Federal government play a somewhat restricted role in financing school facilities. The following three broad areas encompass the major responsibilities which the Federal government should assume:

1. Providing broad-based, continuing assistance in public school facility financing. The national interest, disparities in wealth and facility needs among the states, and superior revenue-generating potential of the Federal government are compelling arguments for general Federal participation in public school capital outlay programs.
2. Funding of facility construction programs for the following special purposes:
    - (a) stimulation of development of educational programs of critical national concern
    - (b) promotion of research, development, and demonstration phases of projects directed toward solution of special educational problems
    - (c) development of alternative construction and design procedures
    - (d) fulfillment of the Federal government's obligation as a land owner and employer for payments in lieu of local and state taxes

   (e) provision of funds to replace facilities in local school districts which have been declared disaster areas

3. Gathering, compiling, synthesizing, and analyzing comparable data on a periodic basis for the several states with respect to school facility need. (The planning grants originally provided through Title I of Public Law 815 constitute an excellent example of a possible operational approach.)

State Responsibilities. Legal responsibility for all aspects of education resides with each state; therefore, the state through its legislature and various state agencies should have a high level of interest in concerns associated with adequate educational programs, adequate school facilities, adequate fiscal and technical support, quality control, and fiscal accountability. Functional operation and decision-making may be decentralized to local school districts, but this should not result in reduced accountability. In an effective program the state should have a multiplicity of educational, fiscal, and administrative interests such as the following:

1. Financial participation in providing for local school district facilities
2. Development of comprehensive state plans which provide for:

(a) the restriction of school construction to permanent school centers in adequately organized districts

(b) objective methods for determining need, with educational needs being the prime determinant

(c) determination of both immediate and long-range construction needs

(d) adequate and enforceable space, site, environmental, and material standards for construction and rehabilitation

(e) fiscal accountability procedures for participating school districts

(f) preservation of local leeway for environmental or enrichment purposes

(g) alleviation of variations in local fiscal capacity

(h) state technical assistance to local school districts in legal, administrative, and fiscal matters relating to school facility financing

(i) permissive cooperative financing of facilities to house school and non-school programs.

Local Responsibilities. In virtually all states local school districts were formed as a matter of administrative convenience and necessity in the operation of schools. A constant process of evolution has kept these districts in a state of change as schools have been consolidated or districts have been reorganized. However, the challenge to develop, staff, and house educational programs has continued to be a responsibility of the local district. The interrelationships which exist between educational program and facilities, varying local conditions, and the historical tradition of local district decision-making dictate that major responsibilities for planning and constructing school facilities be assigned to local school officials. This does not suggest an abdication of state responsibility, but permits local flexibility and casts the state in a leadership and advisory role.

In this discussion, a local district has been defined as any single local district, combination of districts, or school district organization which is sub-state. Typical responsibilities to be allocated to local school districts are as follows:

1. Studies of immediate and long-range facility and financing requirements
2. Administration of construction projects and development of fiscal planning for specific projects

3. Coordination of school facility planning with long-range and short-term plans of other governmental and community agencies
4. Financial participation in the provision of school facilities if prescribed as a condition for support from other sources
5. Use of local leeway fiscal capacity for exemplary, experimental, or enrichment purposes.

Elements of a Fiscal Model

A detailed analysis was made of the characteristics of existing state programs for financing public school facilities. After considering the features which should be an integral part of a state program, four essential elements were identified. These serve as the skeletal framework for the fiscal programs in the final portion of this chapter.

The four elements are determination of needs, allocation procedures, use of proceeds, and source of funds. A brief discussion of the characteristics of each element is presented in the following paragraphs.

Determination of Needs. Formal programs for granting or loaning funds for elementary and secondary school construction have tended to identify elements of need which can be objectively determined and quantified. As previously shown in Chapter II, a number of states require approval of local building projects for which state grants or loans will be sought. After a project has been approved, a determination is made of the "approved project cost" based on the number of pupils to be accommodated and the program to be housed. The approved project cost is utilized for determining the amount which the state will grant or the amount which the state will loan. This amount may be determined through the application of an objective formula. Factors relating to program would be based on standardized space and facility requirements, and those relating to dollar costs would be based on state or regional construction indices derived from acceptable sources.

Another alternative is to determine the cost of an "approved project" which may include construction costs, engineering and architect fees, site costs, and other costs such as those related to sewage treatment plants, site development, and equipment. Statutory provisions or agency regulations might provide for exclusion of specified items such as costs of site development, movable furnishing, access drives, auditoriums, swimming pools, and spectator gymnasiums. Objectivity in state grant or loan programs requires that limitations and exclusions be clearly defined and predetermined by statute, rule, or regulation.

If a grant program is to be included in the state foundation program, the units of need--whether pupil, classroom, or instructional--should preferably be expressed in the same terms as in the foundation program. For example, a stipulated dollar amount per square foot for an approved project may be applied to a schedule of space allotments which varies with the number of pupils to be accommodated.

The foundation program may include a specified amount for capital outlay and debt service; a classroom depreciation allowance may serve as the base with additional funds being provided to recognize rapid enrollment increases. If capital outlay grants are included in the foundation program, adjustment in the required local share would be in order.

Allocation Procedures. In accordance with the objectives of the support program in a specific state, grants may be for uniform amounts, may vary inversely with local fiscal ability, or may be on a percentage basis. Grants may be in lump sum amounts, but are usually spread over a predetermined number of years. The latter procedure has been used in states where school building authorities or state loan funds supply substantial amounts of construction funds. Funds for authorities are normally secured through the sale of revenue bonds. State loan funds may be provided through legislative appropriations, existing reserve funds, or sale of revenue bonds. Greater interest savings can be gained through the first two sources; however, the last option may also be economical since the state rather than the school district would be the guarantor of the securities.

Loan funds, authorities, and local borrowing, in accordance with the macroeconomic viewpoint, result in debt which is payable in the future. Although the macroeconomic and microeconomic viewpoints differ in their impact on the public debt, one effect is crystal clear. If the debt is assumed in its entirety by local school districts, debt service and lease-rental payments will almost invariably be paid by property taxpayers.

State loan plans and school building authorities which provide for state and Federal participation in the costs of debt service and lease-rental payments can make possible an effective "mix" of payments from nonproperty tax sources, thus alleviating the regressive effect of payment from only local property tax sources. This may be a moot point, for the municipal bond market in 1970 does not have the funds available to meet the need for school construction funds throughout the nation. A shift from dependence on long-term state, authority, and local bonds seems inevitable, as shown by legislative studies in California, Ohio, and other states.

Use of Proceeds. Several alternatives for use of proceeds of state capital outlay grants are feasible. The proceeds of state or Federal grants may be directed immediately into construction accounts, together with any required local funds, or they may be used as invested construction reserve funds until contracts require payment. The latter approach is feasible only for short periods of time, if necessitated by delays in progress of construction.

Occasions arise where construction funds are available, and where state or Federal fiscal policy may appropriately be directed toward sharing of debt resulting from loans or bond sales or from lease-rental contracts with school building authorities or similar agencies.

A central government, state or Federal, may recognize that all buildings experience depreciation and may wish to base the distribution on a computed depreciation allowance. In this instance, funds may logically be utilized for construction, debt service or similar payments, or may be accumulated in construction reserve funds. Unmet facilities needs and inflation of construction costs both argue against the latter.

Another alternative may be for the allocation to be used for debt service or current projects until that need is exhausted, and then for local school officials to have the option of using the allocation to meet current operating costs. This choice may be in conflict with the basic intent of the program, but districts which have made prior effort and have no current need are provided with effective tax relief through this alternative.

Source of Funds. Current expenditures of public elementary and secondary schools, except in Hawaii, come from Federal, state, and local governments. Local funds are derived from property taxation in most states. Federal and state funds, in general, are from nonproperty tax sources. In some instances, both in the United States and Canada, some area larger than the district and smaller than the state provides some funds for local schools. Regional agreements, area financing, county and intermediate unit financing, and metropolitan or other area financing may logically be utilized. Such arrangements can broaden the available tax base and tend to equalize school tax effort; however, they may result, in some instances, in the delay of needed reorganization of local school districts. Sources of funds suitable for current operation are often practicable for meeting school construction financial needs; however, this approach may result in fluctuating tax rates which are misunderstood by local taxpayers.

If appropriate models for allocating funds can be devised, revenues can be derived from various combinations of local, state, or Federal sources and even from metropolitan areas which embrace several school districts lying within a state or across state boundaries. An annual need of approximately 124,000 new classrooms at an annual cost of $7.8 billion suggests the desirability of a concerted and orderly use of all available sources. There is a need for less reliance on borrowing and for more support through appropriations for capital outlay by all levels of government. If public school space needs are to be met during the 1970's, short-term indebtedness; state and Federal participation in debt marketing; and state and Federal grants for construction, debt service, and lease-rental payments must increase.

General Recommendations

In subsequent portions of this chapter specific alternative state programs are presented; however, certain general recommendations are considered essential in the implementation of an effective program for financing public school facilities. The concept of local responsibility for decision-making with state oversight and review underlies each of the general recommendations and is considered to be an integral part of any fiscal program. One of the intents in this series of programs is to devise a structure through which an orderly process of facility and fiscal planning will be expedited, and another is to focus attention on administrative and procedural items which will facilitate program administration and provide maximum equity for local school districts and the general citizenry.

1. Any program for support of capital outlay should include the following items in determination of needs:

- (a) Adjustments related to fluctuating annual costs
- (b) Adjustments related to enrollment fluctuations
- (c) Recognition of the varying fiscal capacity of governmental units
- (d) Recognition of all essential elements of construction costs, e.g., site development, equipment, furniture, fees, and like costs
- (e) Recognition of variations in costs associated with educational program to be housed
- (f) Recognition of prior effort
- (g) Restriction of new construction to permanent school centers in adequately organized school districts.

2. Programs for support of capital outlay should facilitate funding flexibility through:
   - (a) Provisions which permit a mix of current and borrowed funds
   - (b) Provisions which facilitate an appropriate mix of Federal, state, local, and private funds
   - (c) Provisions which facilitate both long-term and short-term funding
   - (d) Provisions which permit local districts to have tax leeway or bonding capacity leeway.

3. Since a program for capital outlay involving only state and/or Federal loans postpones assumption of the fiscal burden, some type of grants should be an integral part of any program.
4. Support programs for capital outlay should recognize intrastate differentials; in the event of Federal participation, the formula should recognize interstate differentials.
5. State education agencies should be upgraded to assure that local school districts can obtain competent technical assistance to assist in determining facility needs and planning facilities.
6. The state education agency should provide fiscal services to assist local districts in the bonding process including the sale of bonds, possible state purchase, and related procedures.
7. Permissive legislation should be enacted so that school districts could capitalize upon possibilities for cooperative planning on joint occupancy with other governmental agencies; and legislation should also permit local districts to enter into contractual relationships with private agencies for sale, lease, or purchase of airrights.

8. Arbitrary and restrictive debt levy limits and interest rate limits should be removed.
9. All registered voters should be permitted to vote in a nondiscriminatory manner on referenda related to capital outlay programs, and a simple majority of votes cast should be adequate for passage.
10. In the administration of property taxation, states should:
    (a) Review the appropriateness of existing prescribed levels of assessment
    (b) Review the appropriateness of existing exemption procedures
    (c) Standardize assessment practices to reduce the inequities within and among local school districts
    (d) Provide procedures for determining state equalized values in individual school districts.
11. Accounting and auditing procedures should be sufficient to assure sound fiscal accountability procedures, but separate procedures should not be required for participation in Federal programs.
12. The Federal government should subsidize a decennial state by state study of school facility needs.

Alternative Programs

As discussed previously, several fiscal models for cooperative allocation of funds by varying levels of government for public school purposes have evolved during the last 50 years. Among these models are those based on the Strayer-Haig theory of uniform local effort, the Updegraff theory of financial incentives for increasing local financial effort, and the Morrison theory of total state support. Numerous variants have been proposed by Mort, Fowlkes, Morphet, Johns, James, Conant, and others.

Existing fiscal models have generally provided for cooperative state and local financing, but may be expanded readily to include Federal financing. They may be modified to include financing from regions or metropolitan areas in conjunction with or instead of local financing.

Finance theories and finance models have been concerned principally with the allocation and distribution of revenues for current operation of public schools. Only slight modification is needed to adapt them to programs for the allocation and distribution of funds for public school construction or related rental payments and debt service.

In designing the following alternative programs no effort was made to exhaust the full range of possibilities. The goal has been to identify a selected number of programs which are theoretically sound and provide a range of possible choices for consideration by interested agencies.

Program #1

Variable Grants
Computed on
Recognized Project Cost

State and/or Federal grants are used to support local school construction projects; the grants would vary inversely with local taxpaying ability.

Needs Measure. The recognized portion of total projected cost of each specific construction project would be formula-determined on the basis of items related to the number of pupils and/or programs to be housed. The Recognized Project Cost would not exceed the total cost of the project including site, construction contracts, site development, equipment and related items, with the amount being computed on the basis of a uniformly applicable objective formula.

Allocation Method. The amount of the grant would not exceed the total Recognized Project Cost and would be determined by subtracting the proceeds of a uniform local tax effort from the total Recognized Project Cost.

Use of Proceeds. Funds made available through this program would be used only for specific approved construction projects.

Sources of Funds. Funds for the total project would be provided by the grants and by the local school district. The grants would be derived from state and/or Federal sources. The local share would be obtained from current revenues, loans, or building reserves; local funds would be used to finance the remaining portion of the Recognized Project Costs and any additional costs of the approved project.

Operating Procedures. The following steps would be involved in the project from original design through completion of construction.

1. The local school district would assume responsibility for development of the educational specifications and plans for the facility.

2. The state education agency would determine the Recognized Project Cost.

3. Federal funds utilized in this program would be channeled through the state education agency.

4. The amount of the grant, based on Recognized Project Cost, would be computed on the basis of a predetermined formula.

5. The local school district would develop a fiscal plan to meet the total cost of the approved project.

6. Prior to execution of the formal contract for construction the fiscal plan would be approved by the state education agency.

7. The local school district would be responsible for executing the construction contract.

8. The local school district would be responsible for receiving the facility and making final payment.

Positive Features. The following features are illustrative of the strengths and flexibility of the program.

1. Funds would be allocated only to those local school districts with recognized facility needs.

2. The amount of the grant would be determined through the application of an objective formula.

3. Only recognized features of a specific construction project would be included in the computation of the Recognized Project Cost.

4. The variable level of state and/or Federal participation in the Recognized Project Cost would foster equalization of the tax burden in local school districts.

5. Grants would provide immediate support for the recognized portion of an approved project.

6. Local leeway possibilities would not necessarily be exhausted as a condition for participation in this program.

7. Multiple approaches could be used in computing the Recognized Project Cost.

8. Multiple approaches could be used in computing the amount of the grant and the residual local share.

9. By modifying the items used in computation of the Recognized Project Cost, the state and/or Federal education agency would have the opportunity to encourage construction to house specific educational programs.

Negative Features. The following items are illustrative of the weaknesses of this approach as the only method of state participation in local school district capital outlay programs.

1. The variable grant for the Recognized Project Cost would result in a high immediate cost for the state and/or Federal budget.

2. Inadequate budgetary appropriations might result in an ineffective level of state and/or Federal participation.

3. Participation would be limited to those school districts with current construction projects.

4. Districts which had made prior construction effort would not receive aid.

5. The fiscal leeway of local school districts with limited fiscal resources might be virtually exhausted as a condition for participation.

Possible Adaptations. Various adaptations such as the following could be used to modify, restrict or expand the program.

1. The amount of the grant could be a fixed amount or an equalized matching percentage.

2. Instead of the total grant being made at the time of construction, the payments could be apportioned over a period of years.

3. The local school district could be compensated for prior effort through the computation of the Recognized Project Cost of earlier projects and the payments could be apportioned over a period of years.

Program #2

Combination of Grants and Loans
Based Upon
Recognized Project Costs

The essential features of this program include state and/or Federal participation in financing local school construction through a combination of grants and loans.

Needs Measure. The cost of the recognized portion of each specific construction project would be formula-determined on the basis of items related to the number of pupils and/or the educational program to be housed. An objective, uniformly applicable formula would be utilized by the state education agency to determine the elements of the project which would be eligible for funding.

Allocation Method. The grant would not exceed the total Recognized Project Cost; any residual would be loaned to the local district. The amount of the grant would be determined by application of a uniform, objective formula which would apportion funds in inverse relationship to local district fiscal capacity. Thus, wealthy districts could receive larger loans but smaller grants than poorer districts.

Use of Proceeds. Funds allocated through this program would be used only for specific approved construction projects.

Sources of Funds. Funds for the recognized portion of the project would be provided through the state education agency in the form of grants and loans. The computed grant and loan amounts would be derived from Federal and/or state sources. Local funds would be obtained from current revenues, bond issues, or building reserve funds. Local sources would also be used to finance any additional expenditures beyond those included in the recognized portion of the project.

Operating Procedures. The following steps would be involved in the project from original design through completion of the project.

1. The local school district would assume responsibility for development of the plans for the facility.

2. Federal grants or loans would be channeled through the state education agency.

3. After review of plans for the proposed facility, the state education agency would determine the Recognized Project Cost.

4. The amounts of the grants and loans would be computed by the predetermined formula through the application of a dual index which would recognize variations in local district fiscal capacity and facility needs as indicated by the number of students or educational programs improperly housed.

5. The local school district would be responsible for executing construction contracts and for administering the construction project.

6. Loans would be in the form of advances which would not be construed as indebtedness within the context of statutory or constitutional limitations.

7. Repayment schedules for the loan portion of the program would be determined by the state education agency and the interest rate or service charge would not exceed the market rate at the time of the loan.

8. Any local expenditures for aspects of the facility not included in the recognized project and the fiscal plan for these expenditures would be subject to review and approval by the state education agency.

9. Funds would be disbursed to local school districts on a predetermined schedule during the period of construction.

Positive Features. The following features are illustrative of the strengths of this program.

1. Funds would be allocated only to those local districts with facility needs.

2. The responsibility for securing funds required to construct facilities would not rest solely on the local school districts.

3. Statutory or constitutional debt limitations imposed upon the local school district would not apply to funds advanced in accordance with this program.

4. The necessity for local district bond issues and/or lease rental arrangements would be diminished and interest charges to local districts should thus be lessened.

5. Equalization would be fostered by disbursing relatively larger loans to wealthy districts and relatively larger grants to poorer districts.

6. Multiple approaches could be used in the computation of Recognized Project Costs, local fiscal capacity, and the need for facilities.

Negative Features. The following items may be regarded as weaknesses of this program.

1. Large appropriations of state and/or Federal funds would be required to provide adequate financial support for the program.

2. Prior construction effort by local school districts would not be recognized in this program.

3. Inadequate appropriations could result in an ineffective level of state and/or Federal participation.

4. Fiscal leeway of local school districts could be exhausted as a condition for participation.

5. Participation would be limited to those districts with current construction projects.

Possible Adaptations. Among various modifications which would change the focus of this program are the following:

1. The amount of either the grant or loan could be reduced to shift more of the fiscal burden to local districts.

2. The program could be devised so that wealthier districts would receive only loans while poorer districts would receive only grants or loans and grants.

3. A system of forgiveness for portions of the loans could be incorporated to give special assistance to fiscally impoverished districts.

4. The program could be modified to include grants or loans to local districts which had completed construction prior to inauguration of the program.

Program #3

State and/or Federal Loans
for
Recognized Project Costs

This program provides for state and/or Federal loans to support local school construction projects.

Needs Measure. The cost of the recognized portion of each specific construction project would be formula-determined on the basis of items related to the number of pupils and/or programs to be housed. The Recognized Project Cost would not exceed the total cost of the project.

Allocation Method. The amount of the loan would not exceed the Recognized Project Cost (as determined by the state education agency) less any available local cash reserves.

Use of Proceeds. Funds allocated under this program would be used only for specific approved construction projects.

Sources of Funds. The amount of the loan would be derived from state and/or Federal sources. Costs in excess of the amount of the loan would be provided by local districts from current revenues, borrowed funds, building reserves, or other sources.

As a condition for receiving the loan the local school district would agree to make a minimum annual repayment to retire the indebtedness and pay the interest or service charges associated with the loan. The amount of the minimum annual repayment would be formula-determined on the basis of local taxpaying ability and of existing debt; the length of the repayment period would vary inversely with the taxpaying ability of the borrowing school district.

Operating Procedures. The following steps would be involved in the project from original design through completion of construction.

1. The local school district would assume responsibility for development of the plans for the facility.

2. Federal funds would be channeled through the state education agency.

3. The state education agency would determine the Recognized Project Cost after review of the plans for the proposed facility.

4. The amount of the loan would be computed on the basis of a predetermined formula, with special attention being given to the detailed repayment plan.

5. The local school district would develop a fiscal plan to meet the total cost of the approved project.

6. The loans would be in the form of advances to the local school district and would not be construed as indebtedness within the context of statutory or constitutional debt limitations imposed on the local district.

7. The interest rate (or service charge) would be no greater than the market rate for school district general obligation bonds at the time of the loan.

8. Prior to execution of the formal contract for construction the fiscal plan would be approved by the state education agency.

9. The local school district would be responsible for executing the construction contract and would be the responsible party throughout the construction process.

10. The local school district would be responsible for receiving the facility and making final payment.

11. The local school district would repay the loan on a predetermined schedule.

Positive Features. The following features are illustrative of strengths and flexibility of this program.

1. Districts with immediate school facility needs would receive the funds needed to provide adequate housing for educational programs.

2. Funds would be allocated only to those local school districts with recognized facility needs.

3. School facility financing would be a shared local, state, and Federal responsibility.

4. The degree of state and/or Federal participation in the funding of a project would be determined through the application of a uniformly applicable objective formula.

5. Only recognized features of the specific project would be included in the computation of the loan amount.

6. The length of the repayment period would vary inversely with local fiscal capacity, thereby fostering equalization.

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7. The state loan would be considered as an advance to the local school district and would not be subject to the statutory constitutional debt limitation.

8. Local school districts which have exhausted their borrowing power could secure funds needed to construct the recognized portion of an approved project.

9. Multiple approaches could be used in computing the Recognized Project Cost.

10. By modifying the methods used in computation of the Recognized Project Cost, the state and/or Federal education agency would have the opportunity to encourage construction to house specific educational programs.

Negative Features. The following items are illustrative of the weaknesses of this approach as the only method of state participation in local school district capital outlay programs.

1. Large appropriations of state and/or Federal funds would be required to support the program.

2. Inadequate appropriations could render the program ineffective.

3. Participation would be limited to local school districts having current construction projects.

4. No recognition is provided for prior school construction or existing district debt.

5. The fiscal leeway of a school district with limited resources or extensive facility needs might be virtually exhausted as a condition for participation.

Possible Adaptations. The program could be modified, restricted or expanded as follows:

1. A loan for the total cost of the project rather than for only the Recognized Project Cost could be provided.

2. If state and/or Federal funding of the program through current appropriations were not feasible, a state agency could be utilized to issue revenue bonds, loan the required funds to the local school districts, receive repayment of the loan and use this income to retire the revenue bond obligations.

3. A system of forgiveness for certain portions of the loan could be incorporated to give special assistance to fiscally impoverished districts.

Program #4

Variable Incentive Grant
Computed on
Locally Determined Cost of Project

This program includes state and/or Federal financial participation in local school construction projects with the incentive grant varying inversely with local taxpaying ability; however, the project cost would be the actual cost involved in construction of facilities.

Needs Measure. The project cost would be determined at the local school district level, but planned facilities would have to be compatible with a master plan for the district previously approved by the state education agency.

Allocation Procedures. An objective formula would be used to determine the respective state and local percentage of construction project costs for each school district. The formula would be based on the number of students inadequately housed and fiscal capacity of each district. The respective state and local percentages of construction costs, having been established, would apply to the cost of the entire project.

Use of Proceeds. Funds allocated through this program would be used only for specific approved construction projects.

Sources of Funds. Funds for the project would be provided through the state education agency and by the local school district. The grant would be derived from state and/or Federal sources. The local share would be obtained from current revenues, borrowed funds, or building reserve funds.

Operating Procedures. The following steps would be involved in the project from original design through completion of construction.

1. The local school district would assume responsibility for development of plans for the facility; such plans would be in accord with the district's master facilities plan which has been approved by the state education agency.

2. Federal funds would be channeled through the state education agency.

3. Estimates of costs of the project appearing in the application for a grant should not exceed typical current costs of comparable new construction.

4. The amount of the grant would be computed on the basis of a predetermined formula.

5. The local school district would develop a fiscal plan to meet the total cost of the project.

6. Prior to execution of the formal contracts for construction, the fiscal plan would be approved by the state education agency.

7. The local school district would be responsible for executing the construction contracts and would be the responsible party.

8. The local school district would be responsible for receiving the facility and making final payment.

Positive Features. The following items are illustrative of the positive features of this plan.

1. The matching procedures incorporated in this program provide incentives for local districts to plan adequate facilities.

2. All districts, including those having low fiscal capacity, can provide comparable school facilities with comparable local effort.

3. Facility needs and specific project plans would be locally determined and could thus foster flexible approaches to meeting unique facility requirements.

4. A desirable degree of state control would be maintained with the requirement for state approval of the master plan of the district.

5. School facility financing would be a shared responsibility of local, state, and Federal education agencies.

6. The grant feature would provide immediate nonlocal support for the project.

7. Local leeway possibilities would not be exhausted; incentives for local initiative and adaptation would be provided by the open-ended nature of the matching program.

8. Multiple approaches could be used to determine local fiscal capacity.

Negative Features. The following examples illustrate some of the negative aspects of this plan.

1. Local determination of the nature of the facility might encourage unwarranted expenditure of public funds.

2. The level of required appropriations could have a significant immediate impact on state and/or Federal funds.

3. Inadequate appropriations might result in an ineffective level of state and/or Federal participation.

4. Only those school districts with current construction projects would participate in this program.

5. Districts which have made prior effort would not receive aid.

6. Fiscal leeway of local districts with limited resources might be virtually exhausted as a condition for participation.

Possible Adaptations. Possible adaptations to this program would be very limited because the basic intent of the program would be subverted if significant alterations were made in the fiscal support formula or if certain portions of proposed projects were to be excluded from the program.

Program #5

State and/or Federal Assumption of School Building Costs

Use of state and/or Federal funds for school facilities may be accomplished by grants in the amount of the total cost of an approved school construction project.

Needs Measure. The total actual cost of an approved school construction project would serve as the measure of need.

Allocation Procedures. Grants from state and/or Federal sources would equal the total cost of approved construction projects. After determination of project costs, state and/or Federal funds would be disbursed to local school districts by the state education agency as construction progresses.

Use of Proceeds. Funds allocated through the program would be used only for approved projects.

Sources of Funds. No local funds would be utilized. Funds for site costs, architectural fees, and engineering services; costs of construction, and all other project costs would be obtained from state and/or Federal sources.

Operating Procedures. The following steps would be involved:

1. The state would assume any school construction costs not supported by the Federal government.

2. Local school districts would develop and submit plans for the construction project to the state education agency for review and approval.

3. Upon approval by the state, funds would be advanced by the state to local districts for site purchase and architectural and engineering fees.

4. Total project cost would be determined as a result of bids and contracts.

5. The local school district would be responsible for the construction program.

6. A schedule for disbursement of the grants would be drawn up by the state in accordance with the construction schedule.

7. The local district would be responsible for payments during construction, final acceptance of the completed project, and final payment upon completion, using granted funds.

Positive Features. The following features indicate some of the advantages of this program.

1. Funds would be allocated only on the basis of needed projects at logical attendance centers.

2. Since no local funds would be involved, significant local tax relief would be afforded.

3. A complete education facility would be made available.

4. Complete state-wide assumption of the cost of school facilities would occur.

5. Local school districts would retain the responsibility for planning and operating school facilities.

6. States which are considering total state and Federal financing of current operation costs of public schools would have an orderly program for provision of facilities.

7. Local tax leeway for financing other governmental services would be enhanced.

8. State and Federal funds could be obtained from any appropriate sources, such as tax revenues or borrowing.

9. If borrowed funds are utilized, the substitution of Federal or state credit for local credit would result in reduced interest costs.

Negative Features. Absence of local participation in financing school facilities may have the following disadvantages:

1. Local decision-making might be weakened.

2. No local leeway would be available for financing innovative features.

3. State and Federal budgets would receive the entire fiscal impact of school construction costs.

4. Prior effort of local school districts to provide facilities would not necessarily be recognized.

5. Local decision-making without local fiscal responsibility might be unwise public policy.

Possible Adaptations. Possible adaptations of this program are very limited because the basic intent would be subverted if portions of the building were to be excluded from participation or if local effort were to be required. Minor alterations such as the following could be made:

1. The state could assume responsibility for construction and ownership of school facilities, supplemented by Federal funds, as in Hawaii.

2. The Federal government could assume responsibility for construction and ownership of school facilities.

3. Existing debt of local school districts which was incurred to provide funds for school construction could be assumed by the state or Federal government.

Program #6

Grants and
Metropolitan Area Financing
for
Recognized Project Costs

The essential features of this program include state and/or Federal grants in support of Recognized Project Costs to a group of local school districts in a specific area or region of a state. Grants would be directly proportional to the Recognized Project Costs of the group of districts and would vary inversely with the taxpaying ability of the entire area. Component districts would have tax leeway to supplement the program funds.

Needs Measure. The Recognized Project Cost of specific construction projects within the area or region would be aggregated for the component school districts. This cost would not exceed the sum of the recognized costs of individual projects.

Allocation Method. The variable grant would be determined by subtracting an area share determined by objective formula and varying inversely with the taxpaying ability of the area from the aggregate of the Recognized Project Costs of approved school building projects in the districts comprising the area.

Use of Proceeds. Funds allocated from the state and/or Federal governments and from the metropolitan area would only be used for the Recognized Project Costs.

Sources of Funds. The program would be supported by state and/or Federal grants and by revenue receipts, construction reserve funds, and/or funds borrowed by area school officials. Supplemental funds could be provided by local officials for costs in excess of the Recognized Project Cost.

Operating Procedures. The following steps would be involved in this program.

1. The local school district would be responsible for the development of construction plans.

2. Federal funds would be channeled through the state education agency.

3. The state education agency would review plans for the approved facility, and if approved, would determine the Recognized Project Cost.

4. The school board for the area or region, comprising several local school districts, would establish the required area construction tax levy and rate.

5. The area school board would have the power to borrow or issue bonds and to establish the necessary tax levy or rate for the resultant debt service.

6. Local funds could be used to meet costs in excess of the Recognized Project Costs.

Positive Features. The following features are illustrative of the strengths of this plan.

1. Local responsibility for planning school facilities is retained. However, a metropolitan area rather than individual school districts would be the principal source of local funds for this program.

2. The amount of the grant would vary inversely with the school facility needs and fiscal resources of the area.

3. Funds would be allocated only on the basis of recognized facility needs.

4. The degree of state and/or Federal and metropolitan area participation would be formula determined.

5. Grants would be computed on the recognized portions of approved projects.

6. Recognition is given to the possibility of variable tax systems among areas.

7. Local leeway possibilities would not necessarily be exhausted as a condition for participation.

Negative Features. Metropolitan area financing may have the following disadvantages.

1. An intermediate body would be needed to implement this program.

2. The variable state grant could result in a high immediate cost for the state and/or Federal budgets.

3. State and/or Federal participation is limited to current construction projects.

4. No recognition would be provided for prior construction effort or for debt service.

Possible Adaptations. Various approaches such as the following could be used to modify the program.

1. Grants could be distributed on a fixed dollar basis.

2. Instead of the total grant being made at the time of construction, payments could be apportioned over a period of years.

3. Recognition could be provided for prior effort through the computation of Recognized Project Costs on earlier projects, and payments could be apportioned over a period of years.

4. Metropolitan area financing could be limited to certain types of facilities.

Program #7

Variable Grant
Computed on the Basis of a
Pupil or Instructional Unit

This program provides for a variable grant distributed on a pupil unit or instructional unit basis (average daily membership) with funds being derived from state and/or Federal sources.

Needs Measure. A state-recognized annual school plant depreciation amount would be computed by dividing the annual cost of school construction in the state by the number of years of anticipated useful service, thus obtaining a Recognized Depreciation Amount. The base amount of the school construction grant would be obtained by dividing the annual Recognized Depreciation Amount by the rated capacity of the above school construction. Rated capacity would be expressed in average daily membership or in the number of instructional units to be housed in the above projects. The uniform base amount would be expressed as $X per pupil or instructional unit.

Allocation Method. Each school district would be required to exert a uniform local effort which would vary inversely with local taxpaying capacity. The proceeds derived from this local effort would then be deducted from the base amount multiplied by the number of pupil or instructional units to determine the amount of the grant.

Use of Proceeds. Funds allocated through this program would be used for debt retirement, current construction, and renovation or rental of facilities. Any unused balance would be reserved for future construction needs.

Sources of Funds. Funds granted for this program would be provided by the state and/or Federal governments. The local share of this program would be obtained by appropriation, use of reserve construction funds, or borrowing. The amount available through this program could be supplemented by additional local appropriations or borrowing.

Operating Procedures. The following steps would be involved in the operation of this program:

1. The base amount of the grant would be determined by dividing the Recognized Depreciation Amount for school facilities constructed during the base year by the rated capacity of the facilities.

2. The cost of construction would include classrooms, special areas, site, equipment, fees, interest on debt, and all associated costs.

3. Federal funds would be channeled through the state education agency.

4. The state education agency would determine the administrative procedures to be observed in funding the program.

5. State regulations would provide that funds be expended in accordance with statutory provisions and state agency regulations.

6. Prior to the actual initiation of an individual construction project the local school district would submit fiscal plans and facility plans to the state education agency for review and approval.

7. The local school district would be responsible for executing the construction contract and for making payment.

8. Program funds not immediately needed for school construction, rentals, or debt service would be placed in escrow and earmarked for future construction.

Positive Features. The following features are illustrative of the strengths and flexibility in this program:

1. All local school districts in the state would participate in this program.

2. School facility financing would be a shared local, state, and Federal responsibility.

3. Local discretionary authority would be enhanced.

4. Equalization of local tax burdens would be fostered by the requirement of a uniform local fiscal effort.

5. The proposed program would permit the local school district to hold the program funds in reserve for future construction needs.

6. Local leeway possibilities would not be exhausted as a condition for participation.

7. The amount of state and/or Federal funds required each year would be relatively easy to predict.

8. The required local effort could be adjusted to accommodate different levels of state and/or Federal appropriations.

9. Continued legislative support for this program would enhance the marketability of local district general obligation or revenue bonds for school facility construction since some state support for debt service is assured.

Negative Features. The following features are illustrative of the weaknesses of this program.

1. Enactment and funding of this program would require a high level of state and/or Federal budgetary allocations.

2. Inadequate appropriations could reduce the effectiveness of the program.

3. Once the program has been enacted, local pressures for continuation would be great because the grants would be included as anticipated income in the fiscal plans to retire debt resulting from construction.

4. Local school districts might be unable to secure sufficient current or borrowed funds to meet immediate construction needs.

5. The measure of school construction need used in this program is not responsive to local conditions.

Possible Adaptations. Various procedures such as the following could be used to modify, restrict, or expand this program.

1. Instructional or pupils units could be weighted in various ways to refine the measure of need.

2. The need measures could be weighted to reflect intrastate variations in construction costs.

3. The program could be adapted for use by regional groupings of local districts.

4. The program could readily become an integral part of the state program for apportioning funds for current operation purposes.

5. The program could be changed to a flat grant for all districts by eliminating the uniform local effort provision.

6. Additional allowances for districts with rapid enrollment growth easily could be added to the program.

7. The funds to which a local district is entitled could be retained at the state level until they were needed for a particular project, at the time of need the accumulated balance could be disbursed. In addition to the balance advances of future funds could also be distributed if the cost of the project exceeded the balance being retained by the state.

8. If grant proceeds were not needed for debt service or for current facility expenditure requirements, they could be utilized for current operating expenses.

Program #8

Equalized Grants
for Recognized
Debt Service Programs

State and/or Federal financial participation is provided to support recognized local school district debt service with the grant varying inversely with local taxpaying ability.

Needs Measure. The recognized portion of debt service for future construction would be formula-determined on the basis of items related to the number of pupils and/or programs to be housed. The Recognized Project Cost would not exceed the total cost of the project including site, construction contracts, site development, equipment and related items, with the amount being computed on the basis of a uniformly applicable objective formula. Recognized Debt Service would thus be based on Recognized Project Cost.

Allocation Method. The grant for Recognized Debt Service would be determined by a uniformly applicable state formula and would vary inversely with local taxpaying ability.

Use of Proceeds. Funds distributed through this program would be used only for Recognized Debt Service payments.

Sources of Funds. Funding of the Recognized Debt Service program would be a mutual responsibility of the state, the Federal government, and the local school district. The grant for Recognized Debt Service would be derived from state and/or Federal sources. Local funds would be obtained from current revenues or building reserve funds.

Operating Procedures. The following steps would be involved in the project from application for debt service grants to amortization of the Recognized Debt:

1. The local school district would assume responsibility for development of the plans for the facility.

2. Federal funds utilized in this program would be channeled through the state education agency.

3. The grant for Recognized Debt Service would be computed on the basis of a predetermined formula.

4. The local school district would develop a fiscal plan to meet the total cost of the approved project.

5. Prior to execution of the formal contract for construction the fiscal plan would be approved by the state education agency.

6. Construction funds would be obtained by the local school district in accordance with the approved fiscal plan.

7. The local school district would be responsible for executing the construction contract.

8. Grants for Recognized Debt Service would be computed annually in accordance with a predetermined formula recognizing local taxpaying ability. The grants would be distributed annually to the local school district which would be responsible for making the debt service payments.

Positive Features. The following features are illustrative of the strengths and flexibility of the program:

1. An objective equalizing formula would determine the respective share of the local, state, and Federal governments.

2. "Lighthouse" school facilities would be permitted since school districts could have approved building programs with costs in excess of that part recognized for debt service grants.

3. The variable level of grants for Recognized Debt Service would provide local property tax relief.

4. Equalized debt service grants would provide a stabilizing effect on future local debt service tax rates.

5. Local leeway possibilities would not be exhausted as a condition for participation.

6. Multiple approaches could be used in the computation of the Recognized Debt Service.

7. By modifying the items used in the computation of the Recognized Project Cost, the state educational agency would have the opportunity to encourage construction to house specific educational programs.

8. Participation by the state and/or Federal government in the debt service program and state guarantees of repayment would enhance the marketability of local school district bonds.

Negative Features. The following items are illustrative of the weaknesses of this approach as the only method of state participation in local school district financing of school facilities:

1. Inadequate budgetary appropriations might result in an ineffective level of state and/or Federal participation.

2. Participation would be limited to those school districts with future debt service obligations.

3. Without proper definition of "taxpaying ability" the fiscal leeway of a local school district could be virtually exhausted as a condition for participation.

4. State grants for debt service only could cause school districts to rely exclusively on borrowed funds for financing facilities.

Possible Adaptations. The program could be modified through adaptations such as the following:

1. All of the Approved Project Costs could be eligible for debt service grants.

2. All past or future local school district debt incurred by the issuance of bonds on the public market, as well as lease-rental and lease-purchase payments for school facilities, could be included in the program.

APPENDIX

APPENDIX A

State Plans for Financing Capital Outlay and Debt Service

ALABAMA

Financing Methods. A combination of state grants, local bond issues and local reserve funds is used to finance school construction in Alabama.

Local Provisions

Debt Limit. School bonds or warrants may not be issued in an amount which would require more than 80 percent of the proceeds of the tax pledge for retirement of the bonds to pay annual installments, nor in an amount which would jeopardize the operation of the basic school program as determined by the State Superintendent of Education.

Changes in Debt Limit. No state agency has authority to fix the debt limit or approve a higher limit in special cases. A district may secure authority to increase the levy for debt retirement by constitutional amendment. When this approval has been obtained, the electors in the district must vote their approval of the additional levy for debt service. The legal standard for assessment of property is 30 percent of fair and reasonable market value. The 1967 Census of Governments reported a size-weighted average ratio of locally assessed value to sales prices of real property of 14.9 percent.

Initiation of Bond Issue. School authorities initiate the issuance of bonds when school revenue is pledged for their retirement, but only after approval of the State Superintendent of Education. Issuance of bonds for school construction may also be initiated by the county or city governing bodies when their revenues, and not school revenues, are pledged for retirement of the bonds.

Length of Issue. All school bonds are serial. The maximum length of term for which bonds may be issued is 30 years.

State Approval. All proposed school bonds or warrant issues must be approved by the State Superintendent of Education as Executive Secretary of the State Board of Education.

Rate of Interest. School bonds or warrant issues are sold on the yield basis at such interest rates as can be obtained through purchase offers. The maximum permissible interest rate is eight percent.

Tax Rate Limitations. Annual financial obligations of the school district for current operation, as well as debt service expenses, must come within the total levy as authorized for school purposes. Districts under county boards of education are restricted by a 12.5 percent statutory limitation on the total tax rate for all governmental purposes. By voter approval the limit can exceed 12.5 percent. This additional levy must be approved for current operation expenses as well as for debt service.

Building Reserve Fund. Local school districts may allocate part of their revenues to accumulate funds for school construction or debt service payments. There is no maximum number of years nor is the amount which may be allocated for reserve funds limited. No referendum is required.

State Programs in Support of Public School Construction

State Grants. Each school district receives an allowance based on the district's proportion of teacher units (grades 1-12) in the state. A total of $1,955,087 is earmarked for this purpose under the minimum program fund for capital outlay and debt service. Appropriated funds from earmarked tax sources are used by the state. All school districts in the state participate.

ALASKA

Financing Methods. Local bond issues, reserve funds, and state grants are used to finance school facilities in Alaska.

Local Provisions

Debt Limit. The bond limit for a borough or city school district is included in the total bond limit for the borough or city. Each borough or city under home-rule status has the power to establish or not to establish a limit.

Changes in Debt Limit. No state agency has the authority to alter the debt limit or to approve a higher limit in special cases.

Initiation of Bond Issue. The borough assemblies and city councils initiate bond issues for their school districts. A favorable vote of the majority of property owners must be obtained prior to issuance.

Length of Issue. There is no limit on the maximum number of years for which bonds may be issued. Serial bonds are not required.

State Approval. No state approval is necessary for the issuance of school bonds.

Rate of Interest. Bonds must not bear more than six percent interest and may be sold on either a fixed interest or yield basis.

Tax Rate Limitations. The tax rate of borough and city school districts is limited to 30 mills. There is no limit on the tax rate necessary for debt service. Basis of assessment is full and true value and actual assessments averaged 92.44 percent in 1966, according to the 1967 Census of Governments.

Building Reserve Fund. Local districts may establish a reserve fund. The state does not regulate the length of term or permissible rate or amount per year. Sales tax receipts are the usual source of funds, and voter approval is required if a property tax rate is established for this purpose.

State Programs in Support of Public School Construction

Grant Program. Each school district receives an annual $3,000 basic allotment plus the available balance in the fund which is distributed on the basis of district ADM in relation to total ADM for all qualified districts. The proceeds from this Tobacco Tax Fund are earmarked for construction and major repairs. Only districts recognized as organized school districts during the entire 12 months preceding distribution may participate. In 1968-69, a total of $1,374,200 was distributed from this fund. Proceeds of a state bond issue of $6,000,000 were scheduled for distribution as equalized grants during 1969-70.

ARIZONA

Financing Methods. The state of Arizona does not participate in financing school construction. Local bond issues and local reserve funds are the means of financing school buildings.

Local Provisions

Debt Limit. The maximum amount of school bonds which may be issued by a local district is limited to four percent of local assessed valuation and up to an additional six percent (but not to exceed ten percent) of the assessed valuation with the approval of the county board of supervisors. The legal standard for assessment of property is 18-60 percent of full cash value depending on the class of property. The 1967 Census of Governments reported a size-weighted average ratio of locally assessed value to sales prices of real property as 15.4 percent.

Changes in Debt Limit. No state agency may fix the debt limit or approve a higher limit in special cases.

Initiation of Bond Issue. School bond issues may be initiated by the local school district board of trustees. All school bond issues must be approved at a special election called for that purpose by majority vote of those electors who are real property taxpayers in the district.

Length of Issue. The county board of supervisors, by an order entered upon its minutes, shall prescribe the form of the bonds and the interest coupons attached, and fixes the time when the whole or any part of the principal of the bonds is payable, which shall not be for more than 20 years.

State Approval. No state approval is required.

Rate of Interest. School bonds must bear an interest rate not in excess of six percent.

Tax Rate Limitations. Taxes needed to retire school bonds are levied in the necessary amounts by the board of supervisors.

Building Reserve Fund. Local districts may establish a reserve fund. The state does not regulate the length of term, but does stipulate that the maximum levy is ten cents per $100 of assessed valuation per year. Property tax receipts are the source of funds, and voter approval is not required. Funds may be used for lease purchase payments for portable school buildings and transportation equipment, but not for debt service.

ARKANSAS

Financing Methods. School districts in Arkansas may finance facilities through the use of local general obligation bonds, a state loan program, reserve building funds, or a combination of the methods.

Local Provisions

Debt Limit. General obligation bonded debt limits are set by statute at 15 percent of the locally assessed property valuation. In cases of extreme hardship an 18 percent debt limit is possible. The Census of Governments reported a size-weighted average ratio of assessed valuation to sales of locally assessed taxable real property of 9.8 percent in 1966.

Initiation of Bond Issues. School district bond issues are initiated locally. There is no requirement that the bonds be offered to a state agency.

Length of Issue. There is no requirement that bond issues be serial; however, in practice they have been serial and tend to be limited to 20 year terms.

State Approval. All bond issues must be approved by the State Board of Education.

Local Approval. A majority vote of a district's qualified electors who vote is required.

Rate of Interest. There is a statutory limit of six percent.

Tax Rate Limitations. School districts are fiscally independent. There are no legal limitations on millage for school purposes. Tax rate increases must be approved by a majority of the qualified electors who vote at an annual school election.

Reserve Fund Levy. School districts may levy millage for a reserve building fund. There are no legal restraints other than voter approval of the tax levy.

State Loan Program

The Permanent School Revolving Loan Fund was established by statute in 1928. The program is funded from the working capital of the Permanent School Fund and the sale of State

Board of Education Certificates of Indebtedness to the Arkansas Teacher Retirement System. State Board Certificates of Indebtedness are limited to $5 million. Presently the fund amount is $5,112,350, representing $1,866,912 from the Permanent School Fund and $3,245,438 from State Board Certificates of Indebtedness. Outstanding loans to 351 school districts totaled $5,112,294 in August, 1969. Loans have approximated $60 million since the program was activated in 1928.

The State Board of Education administers the fund. Legally loans are limited to an amount which when added to a district's existing debt will not exceed 15 percent of its assessed property valuation--18 percent is permitted for hardship cases. In practice, loans are such that no district may owe the program more than $50,000 for buildings and/or $50,000 for school buses. Loans may not exceed 20 years in length. The 1967 legislature raised loan interest rate limits to six percent. Interest payments are receipted to the Public School Fund. Loan principal payments return to the revolving loan fund. School districts issue bonds to the State Board of Education for loans over six years in term. Loans of six years or less are secured by Revolving Loan Certificates of Indebtedness.

State loans are made for the purposes of purchasing buses, sites, existing buildings, remodeling, new construction, and refunding. All loan requests are subject to the project approval. Loan requests are initiated by local boards. Voter approval of the loan request is validated by a majority approval of the repayment procedure--a debt service levy or use of an existing fund.

During fiscal 1969 new loans totaled $1,778,273 or approximately 37.2 percent of the total new long-term bonded debt of local school districts.

CALIFORNIA

Financing Methods. California uses a combination of local and state funds to construct facilities. One significant feature is the state loan program which has advanced nearly $2 billion in state funds to financially distressed school districts; only limited repayment to the state is made.

Local Provisions

Debt Limit. Elementary or high school districts may incur bonded indebtedness of up to five percent of state equalized local valuation and state assessed valuation. Unified districts (K-12) have a debt limit of ten percent of state equalized valuation. The legal standard for property assessment is 20-25 percent of full cash value; the 1967 Census of Governments reported a size-weighted average ratio of locally assessed value to sales prices of real property as 18.7 percent.

Changes in Debt Limit. No state agency can approve a higher debt limit.

Initiation of Bond Issue. The local school board initiates the issuance of bonds, subject to the approval of 66 2/3 percent of those voting in a referendum on the question. In the 1967-68 fiscal year, only 34 percent of the proposed school bond issues received the necessary 2/3 favorable vote.

Length of Issue. The maximum length of tern is 25 years.

State Approval. None required.

Rate of Interest. The maximum permissible rate of interest was increased from five to seven percent by 1969 legislation.

Tax Rate Limitations. The school district must levy sufficient property taxes annually to pay bond principal and interest.

Building Reserve Fund. Local districts have the authority to establish a building reserve fund, subject to approval by the electorate. Only a few districts have such a fund, however.

Lease-Purchase Arrangements. Local districts can enter into lease-purchase agreements for school facilities for a term not to exceed seven years.

State Programs in Support of Public School Construction

State Grants. California's program for aiding local school districts to meet their construction needs is basically a loan program, with limited repayment to the state. In the 1968-69 fiscal year, school district repayments had amounted to $41.4 million while state funds amounting to $53.8 million had been allocated for debt service on the state bond issues which provided the funds for the loan program. It now appears that more than half of the principal amounts of the loans made to the local districts will be forgiven, and the balances forgiven may be considered as grants. Details are given below.

State Loans. The State School Building Aid Program has provided $1.947 billion to local school districts since 1947. State general obligation bond issues have provided the funds for this program. To qualify, districts must show approved construction needs which will cost more than can be raised from local bond issues. More than 650 districts have participated, some on several occasions, in this program which has built more than 55,000 classrooms housing 1,900,000 pupils.

The State Allocation Board approves applications and apportions funds to the districts. Square footage maximums, which are variable depending upon the grade levels and number of pupils housed, are established by the board. Cost allowances are based upon regional intra-state cost indexes. In 1967-68, the average project cost per elementary pupil was $1,702; the cost per high school pupil was $2,498. The approved project cost includes allowances for site purchase, site development, plans, utilities, loose and fixed equipment, as well as construction. Another feature of this program is that districts may apply for aid for advance purchase of sites and/or plan preparation for up to five years in advance of construction for elementary schools, and seven years in advance for high schools. A special five cent tax rate for each grade level is required for repayment of site and planning loans.

A special program for financing facilities for exceptional children is incorporated in the law. School districts are required to make repayments of only one-half of the apportioned funds for special education.

A similar program provides funds for housing to districts with concentrations of poverty and social tensions and resulting low levels of academic achievement. Participating districts repay one-half of the amount allocated to them, without interest, by means of a tax levy of one cent per $100 of assessed valuation.

Another special program incorporated in the School Building Aid Law provides for state purchase of portable classrooms which are leased to local districts during periods of high enrollment due to seasonal inmigration of agricultural workers.

Repayment of advances from the state is computed by the State Controller. In general, repayment is limited to the proceeds of a local tax rate of 40 cents for elementary or high school districts and 80 cents for unified districts, less the amounts required to service local debt obligations. In no case does the repayment to the state require more than the proceeds of a local rate of 30 cents per $100 for elementary or high school districts or 60 cents per $100 for unified districts. The repayment obligation extends for 30 years from the date of each apportionment, and any balances not repaid during this period of time are forgiven.

State bond issue authorizations of $95 million remain, but these bonds have not been sold because the maximum permissible interest rate is only five percent. State school building officials are now developing legislation for new state programs which would use new criteria for participation and which would provide different procedures for apportionment.

COLORADO

Financing Methods. Financing school construction in Colorado is achieved wholly by local districts through bond issues and use of reserve funds.

Local Provisions

Debt Limit. The total bonded indebtedness of a school district is limited to ten percent of the state reviewed and approved valuation for assessment. The legal standard for assessment of property is 30 percent of actual value. The 1967 Census of Governments reported a size-weighted average ratio of locally assessed value to sales prices of real property as 24.6 percent.

Changes in Debt Limit. An amount up to an additional five percent of bonded indebtedness may be approved by the State Tax Commission.

Initiation of Bond Issue. School bond issues may be initiated by the local school district board of education. All school bond issues must be approved at a general or special school election. Only qualified electors of the district may vote and a majority vote of those electors voting on the proposition is required for the authorization of a bond issue.

Length of Issue. Only serial bonds may be issued. Maturity of bonds must commence not later than five years and extend no more than 25 years from the date of issue.

State Approval. No special approval is required by the state for the sale of bonds.

Rate of Interest. The maximum permissible rate of interest is six percent.

Tax Rate Limitations. Tax limits for current operation do not apply to levies for retiring bonds. Taxes needed to retire school bonds are levied in the necessary amounts by the board of education. In the event that provisions have not been made by the school district, the county commissioners are responsible for setting a necessary tax levy.

Building Reserve Fund. Local districts may establish a capital reserve fund. The state does not regulate the length of term, but does stipulate the maximum levy of two mills per dollar of assessed valuation per year. Property tax receipts are the source of funds and voter approval is not required.

CONNECTICUT

Financing Methods. Local school districts may receive state grants and state loans for school construction purposes. Local bond issues and local reserve funds are also utilized in Connecticut for school building purposes.

Local Provisions

Debt Limit. In 1963 the legislature enacted new debt limitations. The new limits for schools of cities and towns and regional school districts are based upon the annual tax receipts averaged for the last fiscal years multiplied by the following fixed factors.

Schools of cities and towns:
2.25 x average tax receipts

Regional school districts:
2.25 x average tax receipts
Plus 3.50 x average tax receipts less the aggregate indebtedness of the municipalities comprising the regional school district.

Changes in Debt Limit. No state agency has the authority to change the debt limit.

Initiation of Bond Issue. All bonds are issued by the town government. Bond issues must be approved by a majority vote of the people.

Length of Issue. The maximum time limit for repayment is 20 years. Only serial bonds for refunding and to finance capital outlay can be issued.

State Approval. No approval is required by state agencies.

Rate of Interest. Bonds are sold on a fixed interest basis. The maximum permissible interest rate is determined by the district.

Tax Rate Limitations. There are no specified local tax limits for schools.

Building Reserve Fund. Such a fund may be established upon approval by a majority of the voters on the question. Property tax receipts provide the revenue for this fund. No maximum length of term or maximum permissible tax rate is stipulated in Connecticut law.

State Programs in Support of Public School Construction

State Grants. The School Building Aid Fund provides for state grants of portions of approved project costs according to the following schedule:

a. Grades K-6 school - The lesser of $900 per pupil station plus an additional $200 per special education pupil station or one-half the cost of the project.
b. Grades 7-12 school - The lesser of $1,400 per pupil station or one-half the cost of the project.
c. Combination elementary-secondary school - Formula based upon same per pupil allowances as in a and b above, or one-half the cost, whichever is less.
d. Major alterations, additions, or purchase of existing buildings - One-half of the necessary cost as determined by the State Board of Education.
e. School building projects in regional secondary school districts - 70 percent of the necessary project cost as determined by the State Board of Education.
f. School building projects in regional school districts for pupils K-12 for all participating towns - Eighty percent of the approved project cost.
g. Regional Vocational Agricultural Center - Total cost of project.
h. Local or Regional Occupational Training Center - Total cost of the project or $200,000 whichever is less.
i. Public school administrative or service facilities - One-half the approved project cost.

For projects constructed which were not receiving state assistance under the provisions stated above, the law provides for state grants according to the number of installment payments outstanding on bonds issued for the project. If the project has been fully paid for, grants may be paid in not less than five installments. Grants of less than $10,000 are made in one payment.

The amount available in the fund in 1968-69 was $16,000,000. State general obligation bond issues provide the funds for these grants and for the state loans which are described below. For the 1969-71 biennium, $160,000,000 in bonds may be sold by the State Treasurer to fund the program.

State Loans. Town or regional school districts may borrow from the state the difference between the amount of the state grant and the cost of the project. Each such loan is evidenced by the issuance of bonds of the town or regional school district. A maximum interest rate of four percent is charged.

DELAWARE

Financing Methods. The state of Delaware grants funds to local school districts for school construction. Bond issues and accumulated funds are utilized by districts to obtain required local funds for capital outlay debt retirement.

Local Provisions

Debt Limit. The maximum amount of school bonds which may be issued by any district is limited to ten percent of the local assessed valuation; except in the city of Wilmington, bonds may be issued (with approval of the City Council) up to one percent of the assessed valuation per year with a maximum of two percent of the assessed valuation.

The size-weighted average ratio of assessed value to sale prices of all locally assessed real property in 1966 was 45.6 percent, according to the 1967 Census of Governments, even though the state legal standard stipulates that property is to be assessed at 100 percent of true value.

Changes in Debt Limit. There is no provision for exceeding these debt limits.

Initiation of Bond Issue. School districts are authorized to issue bonds to finance capital improvements. All bond issues and debt service levies must be approved by a majority of the voters eligible to vote in a general election. In Wilmington, the city council approves and issues the bonds for school construction. Anticipation notes can be issued after the local referendum has been passed and before the actual sale of the authorized bonds. The local district issues the anticipation notes.

Length of Issue. Only serial bonds may be issued, the maximum term for which is 25 years.

State Approval. The State Board of Education approves the building program and the date for holding the referendum. The school district issues the bonds approved by referendum. It is not necessary that bonds first be offered to a state agency for purchase, but the state does assist local districts with the sale of bonds through its Department of Justice which provides legal services to local school districts in the sale of bonds. The State Board of Education has no authority to issue bonds or to authorize the sale of anticipation notes. Its authority rests only in approving need for capital improvements and in authorizing the referendum date.

Rate of Interest. Bonds are sold on a yield basis. The maximum permissible interest rate, by legislative mandate, is six percent.

Tax Rate Limitations. There is no limit on the rate of taxes which may be levied for debt service to meet a bond obligation. When bond issues are approved, the authority to collect taxes needed to retire the bonds and to pay interest is granted by the referendum.

State Programs in Support of Public School Construction

Grant Programs. The state will pay 60 percent of approved project costs of school construction. Approval is determined by the State Board of Education. State standards for space allocation form the general basis for approval. Space in excess of the state standards is financed by the local school district.

The amount available for grants in 1968-69 was $15,679,000; for 1969-70 it was $14,219,000; and for 1970-71 will be $15,801,000. State institutions such as vocational schools, and other types of special educational facilities, while operated locally in some cases, are 100 percent financed by the state.

The state share of capital improvement costs is financed through the state sale of bonds. These bonds are sold through the office of the Secretary of State. The local school district deposits its share of the capital improvement project funds in the State Treasury before any state funds are made available.

FLORIDA

Financing Methods. Florida school districts may obtain school construction funds by issuing general obligation bonds, building and bus funds, state grants, and, as a result of a 1969 statute, by lease or lease purchase.

Local Provisions

Debt Limit. The constitution prohibits school districts from issuing school bonds in excess of 20 percent of the assessed valuation. State Board of Education regulations further limit the amount to ten percent, except under specific State Board of Education approval. Property is presumed assessed at 100.0 percent of market value according to a State Supreme Court ruling. Property was assessed at an average of 61.3 percent of sales price in 1966, according to the Census of Governments, even though the legal standard for assessment is 100 percent of full cash value.

Changes in Debt Limit. With State Board of Education approval the districts may exceed their ten percent limit up to the constitutional limit of 20 percent.

Initiation of Bond Issue. The proposal for issuing bonds may be initiated by a petition signed by not less than 25 percent of qualified electors. However, the district school board may initiate the proposal for issuing bonds.

Length of Issue. Only serial bonds may be issued. The maximum time for which bonds may be issued is 20 years unless a longer period is specifically approved by the State Board of Education.

State Approval. Proposal for a bond issue must be approved by the Commissioner of Education. A majority of the eligible voters must vote in favor of the bond issue.

Rate of Interest. Bonds are frequently sold on a yield basis, although a fixed interest basis is permitted by law. The maximum permissible interest rate is 7 1/2 percent.

Tax Rate Limitations. Levies for debt service must be of sufficient amount to cover the cost for debt service. The millage levy required to service all outstanding bonds may not exceed six mills except with specific approval of the State Board of Education.

Building and Bus Fund. In some counties a part of the local millage levy is earmarked for capital outlay purposes for which a maximum of two mills may be set aside as a special reserve. Freeholders may vote up to four mills. Funds may be used for capital outlay and debt service.

Lease or Lease-Purchase. A 1969 act authorized district school boards to enter into lease and lease-purchase contracts with private individuals and corporations. The act required that provisions of the contract, including school building plans, be approved by the State Board of Education.

The district board shall approve the location, plans, and construction of site, buildings, and equipment. It shall enter into lease or lease-purchase contracts with private individuals or corporations, pursuant to regulations of the State Board of Education. Leases may be for rental of necessary grounds and buildings or for buildings to be erected for school purposes for a term not to exceed 30 years at a stipulated rental to be paid from current or other legally available funds. The rental shall be payable only from funds produced other than by exercise of ad valorem taxation or the taxing power of the district.

State Programs in Support of Public School Construction

State Grants. The County Capital Outlay and Debt Service School Fund is provided for by constitutional amendment which guarantees support by dedicating the first proceeds of automobile tag registrations. This allocation is closely related to the State Minimum Foundation Program, and all districts receive $400 per instruction unit per year as calculated for the minimum foundation program. The base amount per instruction unit dates back to 1947 when the amount of annual classroom depreciation was estimated to be $400. The amount of state funds from this source was $23,470,976 in 1968-69 and estimated at $24,656,704 in 1969-70 for K-12.

The District School Additional Capital Outlay Trust Fund allocates $800 per pupil for increased ADA for the last completed school year over the next previous year. Local districts must deposit an amount equal to 25 percent of the amount sought from the state in a "School Construction Fund." These funds are to be used solely for construction or reconstruction. State entitlements are then distributed when needed. A total of $33,004,090 was appropriated for this fund in 1968-69 and $31,410,400 in 1969-70.

Other Provisions Affecting Capital Outlay

Districts may request the State Board to issue bonds on behalf of the district with amounts to be paid from anticipated state payments to the extent that annual principal and interest payments equal 75 percent of the district allowance from the proceeds of automobile registration; provided the district has not pledged funds exceeding 25 percent for local debts.

Department of Education advisory assistance with school bond sales is provided on request. Bonds need not be offered to a state agency for purchase. Proceeds from bond sales may be invested in U. S. Treasury Bills when their use is not immediately required.

GEORGIA

Financing Methods. Georgia obtains funds for school construction from local bond issues, state grants, and the Georgia Education Authority.

Local Provisions

Debt Limits. The constitution prohibits school districts from issuing school bonds in excess of seven percent of local assessed valuation. Property was assessed at an average of 24.3 percent of sales price in 1966, according to the Census of Governments, even though the legal standard for assessment is 100 percent of full cash value.

Changes in Debt Limit. No state agency has authorization to approve a higher limit.

Initiation of Bond Issue. School bond issues may be initiated by the County Board of Education. Fiscally dependent city school systems bond issues are initiated by the city council. A local majority vote of those participating in a bond election is required for approval.

Length of Issue. Serial bonds may be issued for a term not to exceed 30 years.

State Approval. No state approval is required.

Rate of Interest. Bonds are sold at par, after approval, at an interest rate determined by the issuing agency.

Tax Rate Limitations. Debt service levies are outside the 20 mill school rate limitation and must be set by county or city officials in an amount sufficient for debt retirement and interest payments.

State Programs in Support of Public School Construction

State Grants. State support for local public capital outlays is provided through the Georgia Capital Outlay Fund. A local survey of school building needs is required for participation in the grant program. Construction must meet state standards, must have state approval, and is limited to classrooms and related facilities.

The Georgia State Board of Education revised the bonding requirement policy for local school systems on May 21, 1969. Under the new policy, in order to be eligible for State Capital Outlay Funds, a school system must have outstanding bonds equal to or exceeding an amount which would require a one mill levy on the most recent digest over a 20-year period at current interest rates.

The formula for state distribution in 1969 provides $15 per square foot for approved construction. The amount of the state share is amortized over a 12 and 1/2 year period. A state appropriation of $28,801,000 was provided for the 1968-69 school year, approximately 8.8 percent of the budgeted amount for state support of Georgia schools.

A recent revision in space allowances utilized in the program has been made. For elementary projects the number of square feet is 70 for the first 500 in ADA, 55 for the next 250 in ADA, and 49 for the next 250 in ADA. The space allotment for elementary schools having over 1,000 ADA is 49 square feet for the first 500 in ADA, 70 square feet for the next 250 in ADA and 63 for the next 250 in ADA. The allotment for secondary pupils in excess of 1,000 is 56 square feet. The annual allotment is amortized over a period of 12 and 1/2 years.

Application may be made to the Georgia Education Authority (formerly the Georgia State School Building Authority) for construction of the approved facility.

State Authority. A public body, the Georgia Education Authority, was created in 1951 to acquire, construct and operate public school facilities; to execute leases with county or city boards of education; to issue revenue bonds payable from revenues, rents and earnings of the authority.

Receipts from the Georgia Capital Outlay Fund may be pledged by local districts for lease or amortization of the approved facilities. A constitutional provision provides that the General Assembly shall provide a state appropriation sufficient to meet annual rental obligations.

Outstanding bonds of the Georgia Education Authority on January 1, 1968 totaled $253 million.

Bond sales from 1952 to January 1, 1968 aggregated $392.3 million. Rental income during 1967 was $23.3 million and bonds retired were $12.8 million. Construction contracts were $47.5 million. Bonds of the authority since 1952 held a Moody's rating of Aa in 1968 with the exception of the 1953 series which was rated Aaa.*

Estimates of Georgia school capital outlay for the 1967-1968 school year were $43 million, supplemented by $17 million in construction by the Georgia Education Authority. Interest on the school debt of Georgia school districts was an estimated $15 million in 1957-1968. Interest on authority bonds was $5.7 million in calendar 1967.

Recent data for the state of Georgia indicate that during the school year 1967-1968, the latest data available, Georgia sold $41.766 billion in bonds for school purposes. Of this amount four issues by local school districts totaled $13.9 million and three issues of bonds by the state authorities totaled $27.866 million. The interest rate for the bonds issued by the school districts was 4.48 percent. The interest rate for the authority bonds was 4.66. The difference in basis points between the two types of issues was 18.

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*Moody's Municipal and Governmental Manual, Moody's Investors Service, New York, 1968.

HAWAII

Local Provisions

Property tax revenues of local governments are not utilized for public schools.

State Provision

The state of Hawaii operates a one unit school system. All funds are received from state appropriations, supplemented by Federal funds for which the state qualifies. Capital improvement budgets are reviewed by the Board of Education and the governor's staff. State bond issues and pay-as-you-go financing are used for capital improvements.

The 1968 legislative session appropriated the following amount for capital outlay.

$10 million - state general funds
18.3 million - state bond issues
2.0 million - Federal funds

State general funds may be used instead of bonds, if conditions are favorable. A feature of school financing in Hawaii is the flexibility provided by "lump sum" appropriation having a "non-lapsing" provision.

IDAHO

Financing Methods. The state neither grants nor loans funds to local districts for school construction purposes. Local bond issues and building reserve funds are utilized by the local districts to finance school building projects.

Local Provisions

Debt Limit. The maximum amount of school bonds which may be issued by a local district is limited to 15 percent of its locally assessed valuation except elementary school districts may not exceed ten percent of the assessed valuation. The legal standard for assessment of property is 20 percent of full cash value. The 1967 Census of Governments reported the size-weighted average ratio of locally assessed value to sales prices of real property as 10.4 percent.

Changes in Debt Limit. No state agency may fix the debt limit or approve a higher limit in special cases.

Initiation of Bond Issue. School bond issues may be initiated by the local school district board of trustees. All school bond issues must be approved at a special bond election by two-thirds majority of the votes cast by the real property owners and land contract purchasers of the district.

Length of Issue. Only serial bonds may be issued. The maximum length of term for which bonds may be issued is 20 years.

State Approval. The local district must have the approval of the State Board of Education for the plan and form of amortization of all school bonds.

Rate of Interest. School bonds may bear an interest rate not in excess of six percent.

Tax Rate Limitations. Tax levies for debt service are over and above those for the current school program. Tax levies as necessary for debt services are authorized with the debt approval. Tax levies must be made by the district through the county commissioners.

Building Reserve Fund. Local districts may establish a reserve fund. The state permits a special tax levy of up to ten mills per dollar of assessed valuation per year for a period of not more than ten years on the basis of one election. The tax levy must be approved by a two-thirds majority of the votes cast by property owners at a special election.

ILLINOIS

Financing Methods. General obligation bond issues, a local building fund, and a state loan program are principal sources of school building funds.

Local Provisions

Debt Limit. School bonds may be issued for capital outlay up to five percent of the assessed valuation of the district as adjusted by state assessment ratios. Elementary districts (K-8) and high school districts each have separate debt limitations, and a unit district's debt is also limited to five percent of locally assessed valuation. Property is theoretically assessed at 55 percent of fair cash value, but the 1966 Census of Governments study reported an assessment sales price ratio of 39.3 percent.

Changes in Debt Limit. A district may exceed the five percent limitation only by borrowing funds through the State School Building Commission.

Initiation of Bond Issue. Each school district has complete responsibility for the initiation of bond issues. The issue must be approved at a special election by a majority vote of the qualified electors who participate.

Length of Issue. Only serial bonds may be issued. The maximum time for which bonds may be issued is 20 years.

State Approval. State approval is not necessary.

Rate of Interest. Bonds are sold on the yield basis. The maximum permissible interest rate is seven percent.

Tax Rate Limitations. Districts may levy, by vote, the amount needed for the Bond and Interest Fund.

Building Reserve Fund. School districts maintaining grades 1 through 12 may establish a cumulative building fund within the legal limit of a 75 cent rate per each $100 of equalized assessed valuation. This must be done with the approval of the voters. Accumulation of funds by this method cannot exceed five percent of the equalized assessed valuation of the district.

State Programs in Support of Public School Construction

State Grants. A minor grant program was created by 1967 legislation. The Special Education Facilities Fund allocates $1,000 for each professional special education employee in the district. Local districts must levy a 2 mill tax levy for a special education building fund in order to participate. During the 1968-69 fiscal year, $1,900,000 was available from this source.

State Loans. The School Building Commission Fund loans funds to districts that have reduced their bonding power to less than $5,000. The loans are interest free, and are repaid at the rate of six percent per year. Local school boards are authorized to levy a special tax sufficient to provide rental payments, and the levy must be approved by a majority of those voting on the question. Title to the facility remains in the name of the state until the entire project cost is repaid by the rentals. Appropriations by the General Assembly provide the funds for the School Building Commission, and rentals are paid into the General Fund of the state. Up to January, 1969, $31 million had been loaned to approximately 100 Illinois school districts.

State Authority. The Illinois Building Authority may, as a result of 1969 legislation, purchase sites, construct, and provide fixed equipment for local school districts through lease-rental arrangements with the School Building Commission.

Local districts must have reduced their bonding capacity to $5,000 or less. Application is made through the School Building Commission, and one-year renewable leases are executed by participating districts and the Authority.

There appear to be no essential differences between the operation of the Illinois Building Authority and the School Building Commission insofar as local district participation is concerned. The General Assembly will appropriate funds to the Illinois Building Authority for the lease obligation of the Commission to the Authority, and local districts will repay the state directly.

INDIANA

Local Provisions

Debt Limit. School districts may bond to two percent of locally assessed valuation. Property is supposedly assessed at 33 1/3 percent of "true cash value," but assessment-sales price ratios of real property averaged 23.4 percent in 1966.

Changes in Debt Limit. No state agency can approve a higher debt limit. Other civil governmental units (with identical boundaries as the school district) may allow their two percent bonding power to be used for school construction purposes.

Initiation of Bond Issues. Bond issues may be initiated by the local school board and a petition of 50 tax payers is required. No referendum is necessary for bond initiation.

Length of Issue. There is no legal limit for the length of term, but issues of more than 20 years are rarely approved by the State Board of Tax Commissioners.

State Approval. Approval of the State Board of Tax Commissioners is required for general obligation bond issues.

Rate of Interest. There is no interest rate limitation for bond issues. Prior to 1969 legislation, interest rates on general obligation bonds were limited to six percent.

Tax Rate Limitations. The school district must levy ad valorem property taxes for the Debt Service Fund at a rate which will provide sufficient funds to pay bond principal and interest, lease-rental payments to local authorities or private agencies for school buildings, and to repay state advances from the Common School Fund or the Veterans Memorial School Construction Fund.

Cumulative Building Fund. A cumulative building fund levy may be established by the local board (with State Board of Tax Commissioners approval) for a period not to exceed 12 years at a rate not to exceed $1.25 of local assessed valuation. This fund is used to provide revenues for school construction and/or debt service payments.

Lease-Rental Arrangement. Local nonprofit school building corporations may be formed, with approval of the State Superintendent of Public Instruction. These non-governmental agencies are authorized to issue stock, debentures, and first mortgage bonds, to construct school buildings, and to lease the buildings to local school districts on an annual basis with an option of renewal. Lease-rental contracts may not exceed 30 years. State Tax Board approval of the terms of the lease contract is required. The local district eventually becomes the owner of the building. The building, the contract, and the interest income to investors is exempt from local, state, and Federal taxes under existing legislation. The 1947 act revived provisions of similar legislation enacted in 1928 which was repealed during the depression.

State law mandates an unlimited tax rate sufficient to meet the rental payment. In the event of failure to make a rental payment, the State Treasurer will make the payment and deduct the amount from the next distribution of state school support.

A similar arrangement with private corporations was authorized in 1957. A lease-rental contract may be made with a private corporation which erects the school building. The law limits the contract to 50 years, but in practice such contracts normally do not exceed 25 years. The source of funds is usually an insurance company which purchases the contract from the original owner. The school district eventually becomes the owner of the building. The building, the rental payment, and interest income, included in the rental payment are presently tax exempt. The local district is required to levy a local property tax at a rate sufficient to meet the annual-lease rental payment. As in the case of a nonprofit school building corporation the State Treasurer, in the event of a default in lease-rental payments is required to make the payment and recover the amount from future state distributions to the local district.

State Programs in Support of Public School Construction

State Grants. Each school corporation receives a flat grant of $40 per pupil in A.D.A. (1-12) from the Property Tax Relief Fund. These funds must be used for debt service purposes, and if the distribution exceeds local debt service requirements (including lease-rental payments) the balance may be used for current operating expenses.

State Loan Funds. Veterans Memorial School Construction Fund. Immediately following World War II money was collected by the state for the purpose of paying a state bonus to the Veterans of Indiana in World War II. More money was collected than needed to pay the bonus obligation and undistributed funds ($5,000,000) were used to establish the Veterans Memorial School Construction Fund by the 1955 General Assembly, Chapter 312, as amended. The fund is a perpetual one with loans returned being reloaned to another school corporation. Advancements are made for the construction of classrooms. To be eligible, local school corporations must have maintained a cumulative building fund of not less than 50 cents per $100 of taxables for three years prior to the date of application. Eligibility is further determined by an index of capital need and local ability. The maximum advance is $250,000 and a service charge of one percent on the unpaid balance is paid by the borrowing school corporation. Repayment must be made within 20 years. Advances from this fund are not considered as indebtedness included in the two percent constitutional debt limit. The amount of loans approved in 1968-69 was $1,536,000, and outstanding loans totaled $13,669,466.

Common School Fund Loan. Funds appropriated by the General Assembly (along with some dedicated funds) are made available for loan to school corporations for purchase of equipment, construction, and sites. Eligibility is determined primarily by taxable wealth per pupil. To be eligible, a school corporation must have 270 or more pupils in A.D.A. and must have raised (by bond issue and/or cumulative building fund proceeds) an amount equal to two percent of its assessed valuation. Maximum loan is $750,000, to be repaid within 20 years, at an interest charge of 3 3/8 percent. Interest received by the state from Common School Fund Loans is dedicated to special education. Common School Fund Loans are not considered as indebtedness included in the two percent constitutional debt limit. Purchase of local bond issues from this fund is also authorized, but rarely used. The amount loaned from this fund in 1968-69 was $2,250,000 and loans outstanding totaled $31,058,627 at the end of the 1968-69 fiscal year.

State School Building Authority. A state school building authority, authorized in Indiana in 1951, has never operated.

Other Provisions

State Guarantee of Local Debt Service Obligations. Legislation in 1967 provides that if a local school corporation defaults on debt service obligations, (including lease-rental payments) the State Treasurer is authorized to make payments that are due and withhold the funds from the school corporation's next distribution of state support.

IOWA

Financing Methods. Iowa public elementary and secondary school construction is financed by local funds exclusively. The state does grant funds for construction of post-high school area vocational schools.

Local Provisions

Debt Limit. The maximum amount of school bonds which may be issued by a local district is limited to five percent of the actual value of taxable property in the district. The legal standard for assessment of property is 27 percent of actual value. The 1967 Census of Governments reported a size-weighted average ratio of locally assessed value to sales prices of real property as 21.8 percent.

Changes in Debt Limit. No state agency may fix the debt limit or approve a higher limit in special cases.

Initiation of Bond Issue. School bond issues may be initiated by the filing of a petition of 25 percent of the number voting at the last election of school officials. The school board, under certain conditions, may initiate the proposal asking that an election be held by stating the amount and purpose of the issue. Only qualified electors of the district may vote and a 60 percent vote of those electors voting on the issue is required for the authorization of a bond issue. There are no property qualifications for electors.

Length of Issue. Only serial bonds may be issued. The maximum time for which bonds may be issued is 20 years.

State Approval. No special approval is required by the state for the sale of bonds.

Rate of Interest. A fixed interest rate is required, and the maximum permissible rate is six percent.

Tax Rate Limitations. Debt service levies are limited to 15 mills. To exceed ten mills for this purpose, an election with a 60 percent favorable vote is required.

Building Reserve Fund. Local districts may establish a school building reserve fund. The state does not regulate the length of term, but does specify a maximum property tax rate of 2.5 mills per dollar of assessed valuation per year. Property tax receipts are the sole source of funds, and the tax levy must be approved by a 50 percent vote of those electors voting on the issue. Funds may not be used for debt service or lease-rental payments.

A tax rate of .5 mills may be levied for the establishment and maintenance of recreation places and playgrounds. A levy of one mill may be made for site purchase.

Lease Purchase. If approved by 60 percent of the voters upon the question, a levy of up to five mills can be established for rental or lease purchase of facilities.

KANSAS

Financing Methods. Local bond issues and local building reserve funds provide the funds for school construction in Kansas. No state loan or grant programs exist.

Local Provisions

Debt Limit. The aggregate amount of bonds of a board outstanding at any time (exclusive of bonds specifically exempted from statutory limitations) shall not exceed seven percent of the assessed valuation of tangible taxable property within the district. The legal standard for assessment of property is 30 percent of true value in money. The 1967 Census of Governments reported a size-weighted average ratio of locally assessed value to sales prices of real property as 16.8 percent.

Changes in Debt Limit. Any board may issue, without an election but with the written approval of the state board of education, bonds in an amount not to exceed $20,000. Bonds issued without an election are not subject to any bonded indebtedness limitations nor are they considered in determining the bonded indebtedness of any school district, but the total bonds outstanding at any one time shall not exceed $20,000. Temporary notes may be issued in lieu of these bonds and the notes may, at the option of the board of education, be retired by tax levies.

Initiation of Bond Issue. The question of issuing general obligation bonds is submitted by the board to the electors of the unified district, and upon the affirmative vote of the majority of those voting thereon, the board shall be authorized to issue such bonds.

Length of Issue. Only serial bonds may be issued. The maximum time for which bonds may be issued is 20 years.

State Approval. School bond issues are approved after the election by the Attorney General who checks the bond transcript and certifies to the state auditor and the Kansas School Fund Commission that the bond issue is approvable. The State Treasurer must register bonds before final approval of sale.

Rate of Interest. School bonds may bear an interest rate not in excess of 5.5 percent.

Tax Rate Limitations. Taxes for debt service are outside specified tax rate limits. Taxes needed to retire school bonds are levied in the necessary amounts by the school districts.

Building Reserve Fund. Local districts may establish a reserve fund. The state permits a special tax levy of up to four mills per dollar of assessed valuation per year for a period of five years. Property tax receipts are the source of funds. A voter referendum may be required by a petition signed by 15 percent of the freeholders. Funds may be used for site, site improvement, renovation, new construction, and purchase of school buses.

Lease-Purchase Arrangements. Leases may be exercised only on an annual basis for temporary buildings, but no long-term leases are permitted by statute.

State Programs in Support of Public School Construction

State Purchase of Local Bond Issues. The School Fund Commission has the first option on purchase of bonds, but the option is rarely exercised.

KENTUCKY

Financing Methods. Kentucky school districts may obtain funds from general obligation bond issues, local building reserve funds, state foundation program grants, and lease rental arrangements.

Local Provisions

Debt Limit. Bonded indebtedness is limited to two percent of the local assessed valuation. Property is theoretically assessed at 100 percent of fair cash value, but the 1966 Census of Governments reported that locally assessed taxable real property was assessed at 77 percent of sales prices.

Changes in Debt Limit. No state agency has the authority to fix the debt limit or to approve a higher limit in special cases. Lease-rental arrangements are used to circumvent the constitutional limit on general obligation bonded debt.

Initiation of Bond Issue. A proposal for a vote on a school bond issue is initiated by the board of education. All qualified voters may vote in bond elections and a two-thirds majority of those voting on the question is required to authorize the issue.

Length of Issue. School bonds may be either the sinking fund or serial bond type and may be issued up to 30 years.

State Approval. State department of education must approve all bonds either before or after the election.

Rate of Interest. Bonds are usually sold on a yield basis but may also be sold at a fixed rate. The maximum permissible interest rate on general obligation bonds is seven percent.

Tax Rate Limitations. When boards of education issue bonds which have been approved by a vote of the people, the tax necessary for the retirement of these bonds is a special tax authorized over and above that for the current program.

Building Reserve Fund. A majority of the qualified voters of the district must vote in favor of the special school building tax levy. The tax rate shall be in addition to the maximum school tax levy. The tax rate for this purpose shall not be less than five cents annually on each one hundred dollars of property subject to taxation nor more than fifty cents. These funds can be used for construction, equipment, alterations, bond interest and principal, and lease-rental payments.

Portions of the general ad valorem levy for school purposes can also be allocated for debt service and capital outlay.

Lease-Rental Arrangements. Revenue or holding company bonds may be issued by cities and counties for the benefit of the board of education on the approval of the State Department of Education. A study is made by the State Department of Education to determine the district's financial ability to retire bonds before they are approved. No vote of the people is required for school building revenue bonds and there is no legal limit to the amount which may be used.

Lease-rental payments sufficient to amortize the principal and interest on the bonds and also to provide adequate maintenance and insurance funds are paid by the school district to the issuing agency. Title to the facility eventually passes to the school district after the bonds are fully amortized.

The importance of this method of financing school construction is apparent when one considers that $282,452,000 in revenue bonds were outstanding on June 30, 1968. General obligation bonds outstanding on the same date amounted to $1,242,000. The maximum interest rate is six percent. A recent judicial decision authorizes that "Public School Project Revenue Bonds" may be issued pursuant to provisions of KRS 58, which stipulates a maximum interest rate of seven percent per annum.

State Programs in Support of Public School Construction

State Grants. The Foundation Program provides for allocation of $1,200 per classroom unit to each school district for capital outlay and debt service. The Foundation Program number of classroom units is based upon the previous years average daily attendance modified by enrollment growth percentages for the current year. The capital outlay allotment is to be used for construction costs, debt service, lease-rental payments, and for reserves for future needs. If the school district has none of these needs, then the capital outlay allotment can be used for school plant maintenance, repair, insurance, and replacement of equipment. The amount allocated for capital outlay in 1968-69 was $20,849,990.

LOUISIANA

Financing Methods. Local school bond issues and local building reserve funds are used to finance school construction in Louisiana.

Local Provisions

Debt Limit. The maximum amount of school bonds which may be issued by a local district is limited to 25 percent of its locally assessed valuation. The legal standard for assessment of property is not below 25 percent of actual cash value. The 1967 Census of Governments reported a size-weighted average ratio of locally assessed value to sales prices of real property as 15.3 percent.

Changes in Debt Limit. No state agency may fix the debt limit or approve a higher limit in special cases.

Initiation of Bond Issue. School bond issues may be initiated by the parish and city school boards. In the city system of Monroe, this is the responsibility of the city council. All school bond issues must be approved at a special bond election. A favorable vote of the majority of qualified electors who are property owners and a majority of the assessed valuation of all property voted is necessary for authorization of a bond issue.

Length of Issue. Although not required by law, a majority of school bonds are serial bonds. The maximum time for which bonds may be issued is 40 years.

State Approval. School boards must secure approval of the State Bond and Tax Board before calling an election for the purpose of voting on a bond issue.

Rate of Interest. Bonds are usually sold on the yield basis, and the rate of interest cannot exceed six percent.

Tax Rate Limitations. Tax levies for debt service are over and above those for the current school program. Taxes needed to retire school bonds are levied in the necessary amounts by the school district.

Building Reserve Fund. A construction tax of up to five mills can be levied if approved by the qualified electors. The maximum length of term which can be approved at an election is ten years.

State Programs in Support of Public Construction

State Grants. No specific school building grant program exists in Louisiana, but flat per pupil nonrestricted grants are made from the Public School Fund. Presumably, proceeds from these grants could be used for capital outlay and/or debt service.

MAINE

Financing Methods. Principal sources of school building funds are local bond issues, earmarked property tax receipts, a state grant program, and a state school building authority.

Local Provisions

Debt Limit. The maximum debt limit for municipalities is set at 7.5 percent of the last local assessed valuation of the municipality and is imposed by the state constitution. Incorporated school districts have their debt limits set forth in the act of incorporation. School units in the form of school administrative districts have a debt limit of 12.5 percent of the last preceding state valuation of all participating towns.

The legal standard for property assessment is "just value", and the 1967 Census of Governments study reported that all locally assessed property values averaged 50.1 percent of sales price.

Changes in Debt Limit. State agencies have no authority to fix or approve a higher debt limit.

Initiation of Bond Issue. (1) The school committee for each district recommends the issuance of bonds to the voters of the town in a special meeting called for that purpose or to the city council. Voters then at the special meeting initiate the bond issue by a majority vote.

(2) Several school districts receive their authority to issue bonds directly from the state. These districts are incorporated by a special act of the State Legislature to erect, remodel or acquire school buildings. These purposes are within specific limits as stated in the act.

(3) New local school units in the form of school administrative districts are composed of two or more towns, cities, plantations, or previously existing community school districts. They are administered by boards of school directors with representation from every town. School directors initiate the bond issue when properly approved by a majority of votes cast at an election called by the directors for that purpose.

Length of Issue. District bonds must be serial and cannot exceed 25 years in length. In cities and towns serial bonds are not required and the maximum term of bonds is 50 years.

State Approval. No state agency has approving power over the issuance of bonds except as noted in case number (2) in initiation of bonds.

Rate of Interest. Bonds are usually sold on a fixed interest basis. Statutory limits on the rate of interest have been removed.

Tax Rate Limitations. Tax levies for meeting the requirements of school district funded indebtedness are levied over and above those which are necessary for the current school program.

Building Reserve Fund. Local districts may earmark property tax receipts for future capital outlay purposes.

State Programs in Support of Public School Construction

State Grants. Districts and single municipality units receive as state assistance a percentage of expenditures for construction, including debt service and lease payments of the Maine School Building Authority. The percentage varies inversely with the state valuation per resident student. These percentages are applied to approved costs and the balance is a local responsibility. Those school districts which are reorganized or have more than 500 secondary pupils if unreorganized are eligible to participate in this program. Funds are to be used for debt service only, except in a few cases where lump sum payments for construction costs were provided for under a previous state program. The amount appropriated for this fund in 1968-69 was $4 million.

Another grant program is provided for by statute, but unfunded at this time. This program, "Grants to Supplement Loans by the Maine School Building Authority" was designed to aid school districts which were unable to finance minimum needed classroom facilities within the maximum loan limit policy of the Maine School Building Authority.

A minor grant program derived from the interest in the Permanent School Fund is used to reimburse administrative units for half the cost of school surveys and plans.

An additional program provides that 75 percent of approved construction and equipment costs for regional technical vocational centers may be assumed by the state.

Maine State School Building Authority

The Maine state authority is authorized to issue revenue bonds and make temporary loans. The authority may construct, acquire, extend, enlarge, repair, or improve public school buildings within the state. Rentals and other charges from municipalities or school administrative districts provided revenues to the authority for retirement of debt and interest payments. Bonds issued by the authority are revenue bonds for a term not to exceed 40 years from the date of issue. Statutory limits on the rate of interest have been removed.

MARYLAND

Financing Methods. School districts in Maryland may finance facilities through the use of local general obligation bonds, state grants, a state loan program, a state aid program, local revenues or a combination of these methods.

Local Provisions

Debt Limit. Charter counties (Ann Arundel, Montgomery, and Baltimore) are limited to a debt limit of ten percent of assessed valuation. There is no state-wide statutory or constitutional debt limit. The Census of Governments reported a size-weighted average ratio of assessed value to sales of locally assessed taxable real property at 43.2 percent in 1966.

Changes in Debt Limit. There is no provision for changing the debt limits of charter counties.

Initiation of Bond Issues. County commissioners or the county council issue bonds in 22 counties; the Board of Education does so in the remaining county (Ann Arundel). The city of Baltimore operates as a separate school district and initiates bond issues through the mayor and city council.

Length of Issue. For the counties in the state except the three charter counties (Ann Arundel, Montgomery, and Baltimore) the term of bonds shall not exceed 25 years. The three charter counties may act at their own discretion.

State Approval. All counties except the three charter counties require authorization by the Legislature for a bond issue. A local referendum may be specified by the Legislature or required by petition from ten percent of the qualified voters. Baltimore city bond issues require local voter approval.

Rate of Interest. Bonds are sold on a yield basis at a public sale. No state assistance in the form of financial help is provided in selling the bonds. All counties except the three charter counties (Ann Arundel, Montgomery, and Baltimore) have no interest ceiling. The three charter counties may act at their own discretion.

Tax Rate Limitations. All bonds are unlimited tax bonds.

Reserve Fund Levy. There is no provision for reserve building funds.

State Grant Program

Some federal money comes through the state for distribution to local school districts (counties). Some purely state grants are also made to local districts. Grant funds are distributed to finance various types of facilities for vocational education and special purpose programs such as those described under Title I of the Elementary and Secondary Education Act.

The School Building Construction Aid Program was enacted by the Legislature in 1967 and provides a financial partnership of the state and local districts for financing capital improvement projects. This legislation provides that the state will make a contribution to support in part each new school construction project. The amount of the state contribution is the product of (1) the number of pupils housed, (2) the percentage of current operating expenses currently being paid by the state, and (3) 80 percent of $1500. Funds in the amount of $65,860,925 were distributed to local school districts during Fiscal Year 1969 under the School Building Construction Aid Program.

The first factor; i.e., pupils housed, can be stated in simplified terms as 25 for secondary teaching space, 27 for elementary teaching space, and one per 300 square feet for other instructional spaces. The second factor provides for the weighting of the share of state aid in favor of those districts with the least financial ability. The third factor is an attempt to place a fairly realistic figure upon the cost of classroom construction.

The amended legislation also provides for the state to share in a similar manner in the bonded indebtedness of the local units regardless of when the bonded indebtedness was originally incurred.

State Loan Program

The General Public School Construction Loan Program was established by statute in 1949. The program is funded through the sale of state general obligation bonds. State bonds must be amortized within 15 years. In 1969, the five percent interest rate limitation was removed.

The state loan program is managed by the Board of Public Works consisting of the Governor, the State Treasurer, and the State Comptroller. Loan applications are weighted and recommended to the Board of Public Works by the State Board of Education after it has made findings of fact to support need. Loan applications are given priority on the basis of need, total county or city debt, assessed valuation, and other information as requested by the State Board of Education.

The 1967 Legislature authorized $50 million of additional state debt to fund the loan program. During fiscal 1969 new loans totaled only $705,000 or less than one percent of the total new long-term debt of Maryland's school districts. State school loans outstanding June 30, 1969 totaled $161,195,124 plus accrued interest of $32,574,523.

Limits of participation in the loan program for each county and Baltimore are based on 90 percent of the respective entitlement from state taxes on income, racing, recordation, amusements, licenses, and incentive funds for school buildings. This amount is regarded as available for debt service since debt service payments on state loans are withheld by the State Comptroller. Loan limits are calculated from the amount available for debt service when loans are to be repaid within 14 years at a predetermined interest rate.

The Maryland Constitution of 1867 mandates the Legislature to levy a tax to service any state bonds. School construction loan fund bonds are secured by a state authorized tax each year which in practice is not levied if the Board of Public Works certifies that school district payments are adequate to meet state debt obligations.

Loans since January 1, 1958 from the construction loan fund are not considered a county debt. Loan funds may be used only for construction and site purposes.

Other Provisions

School districts may finance all or a portion of capital improvements with local current revenue funds on a pay-as-you-go basis.

MASSACHUSETTS

Financing Methods. A combination of state grants, local bond issues, and local reserve funds is used to finance school construction in Massachusetts.

Local Provisions

Debt Limit. School district indebtedness is limited to five percent of the average of the equalized valuation of the taxable property for the three preceding years for towns, and 2.5 percent of the average of the equalized valuation of the taxable property for the three preceding years for cities. The 1967 Census of Governments reported that locally assessed real property had average valuation of 43.7 percent of sales prices. Equalized valuation is the full cash valuation of taxable property and is determined by a state agency.

Changes in Debt Limit. With the approval of the State Emergency Finance Board, the normal limit may be increased up to ten percent for towns and up to five percent for cities. With the approval of the Emergency Finance Board and the State Board of Education, a school district may borrow outside the statutory limit.

Initiation of Bond Issue. A bond issue may be authorized by two-thirds vote of the city council or town meeting. Bonds may be issued by the city or town treasurers with the approval of the mayor or selectmen.

Length of Issue. All bond issues must be serial and cannot be issued for more than 20 years.

State Approval. No special approval is required by the state for the sale of bonds.

Rate of Interest. Bonds are usually sold on a fixed interest basis. There is no limit on the maximum permissible interest rate.

Tax Rate Limitations. There is no specified tax rate limit for the taxes which may be levied for the support of the public schools either with or without voter approval.

Building Reserve Funds. Local school districts may establish a school building reserve fund. The state permits the voters to establish a property tax rate levy for the building reserve fund. The General Laws limit the annual appropriation for the local district stabilization funds to an amount not exceeding ten percent of the amount raised in the preceding year by taxation. The fund may not exceed ten percent of assessed valuation at any time. The funds may be used for debt service but not for lease-rental payments.

State Programs in Support of Public School Construction

State Grants. The School Construction Grant for Capital Outlay and Debt Service Fund has been in existence since 1948. The amount of the grant is based upon approved project costs and equalized valuation per pupil. For cities and towns, the grant ranges from 40 to 50 percent of the approved cost of the building. Projects in regional school districts are eligible for state grants ranging from 40 to 65 percent of the approved cost. The grant is made in annual installments for not less than five years. Funds may be used for construction or debt service. In 1968-69 $23,699,304 was available in this fund for distribution.

MICHIGAN

Financing Methods. School districts in Michigan may finance facilities through the use of school building reserve funds, general obligation bonds, state loans for debt service, or a combination of these methods.

Local Provisions

Debt Limit. School districts may incur debt to five percent of their state equalized valuation without a referendum, except in Detroit where the limit is three percent. There is no legal debt limit for voter approved bonds when qualified by the State Department of Education. Such approval or "qualification" guarantees access to state loans for debt service under certain conditions. Nonqualified bonds are limited to 15 percent of a district's state equalized valuation by statute. The Census of Governments reported a size-weighted average ratio of assessed value to sales of locally assessed taxable real property of 28.7 percent in 1966.

Changes in Debt Limit. No state agency may alter debt limits.

Initiation of Bond Issues. School district bond issues are initiated by local school boards. There is no requirement that the bonds be offered to a state agency.

Length of Term. Issues may not exceed 30 years in term. The School Bond Loan statute provision for qualification sets minimum terms dependent on a district's bonded debt to state equalized valuation ratio. The higher the ratio the longer the term requirement.

State Approval. The State Department of Education must "qualify" all bonds if they are to be eligible for debt service loans. The Municipal Finance Commission must approve all government bond sales. The Commission consists of representatives of the State Department of Education, the State Treasurer's office and the Attorney General's office.

Local Approval. School boards may issue bonds to five percent of a district's state equalized valuation without voter approval except in districts of the first class (Detroit) where the limit is three percent. A majority approval of the qualified voters is required for bonded debt beyond these limits.

Rate of Interest. Interest rates may not exceed six percent on school bonds.

Tax Rate Limitations. The 1963 state constitution stipulates that all school bonds are to be unlimited tax bonds.

Reserve Fund Levy. School Building and Site Fund levies in Michigan require a majority approval of the voters. Levies are limited to no more than five mills for a maximum of 20 years.

State Loan Program

The State Bond Loan Fund program was established in 1955 by an amendment to the constitution and was continued in the 1963 State Constitution. Funds for the program come from the sale of state bonds or short term borrowing. By constitution, qualified school districts may borrow from the fund, for debt service payments, the amount needed in excess of a local debt service effort of 13 mills or less. The legislation has adopted a sliding scale for local effort below the 13 mill constitutional maximum. The scale requires a rate effort inversely proportional to a district's state equalized valuation per pupil. The fund is administered by the State Department of Education.

Loans from the School Bond Loan Fund carry variable interest charges dependent upon the costs of borrowing to the state. Loans are indeterminate in length but require a continuation of the local qualifying levy until repaid. Loan requests are initiated by local school boards and must be granted to qualified districts. In fiscal 1969 new loans totaled $8,386,925 to 49 districts. This represented about 4.3 percent of the total debt service payments in Michigan. Since 1955 the fund has loaned approximately $23.5 million of which $22,616,349 was outstanding June 30, 1969.

MINNESOTA

Financing Methods. School districts in Minnesota may finance facilities through the use of school building reserve funds, local general obligation bonds, a state loan program, or a combination of these methods.

Local Provisions

Debt Limit. General obligation bonded debt limits are set by statute at ten percent of the actual market value of all taxable and exempt property within the district as defined by statute. The Census of Governments reported a size-weighted average ratio of assessed value to sales of locally assessed taxable real property at 10.6 percent in 1966.

Changes in Debt Limit. Special laws permit certain districts to exceed the debt limit.

Initiation of Bond Issues. School district bond issues are initiated locally. There is no requirement that the bonds be offered to a state agency.

Length of Issue. Issues are limited to serial bonds to be amortized within 30 years.

State Approval. No state approval required. Bonds are not offered to the state.

Local Approval. Except in certain special school districts, a favorable vote by simple majority is required to authorize the issue.

Rate of Interest. Bonds are usually sold on a fixed interest basis. There is no limitation on the rate.

Tax Rate Limitations. Levies for retiring debt may be over and above per pupil unit tax rate limitations but must be included within the limitations if the per capita option is chosen. Legislatively mandated taxes (P.E.R.A.--Public Employees Retirement Association, Liability Insurance) as well as levies for group insurance (excluding 50 percent of cost of dependents coverage), and cost of Public Examiner audits are also over and above all taxing limitations.

Reserve Fund Levy. Independent districts not of the first class may levy up to eight mills annually, if within the district's general tax limitation, to improve and repair school sites and to erect, equip, repair, and improve buildings and fixtures.

State Loan Program

The maximum Effort School Loan Fund was established by statute in 1959. The program is funded through the sale of state general obligation bonds. Legislation in 1969 approved the sale of an additional $20 million in state bonds which brought the fund total to $61,739,000. Presently 14 districts have outstanding loans totalling $29,522,851. The fund is administered by the State Commissioners of Education, Administration and Taxation who serve ex-officio as the State School Loan Committee.

State statutes provide for a debt service account and a capital loan account. The fund acts as a revolving loan program since repayments and interest are returned to the fund. Legislation in 1969 established interest rates on school loans at the level of most recent interest rates charged for state bond sales but not less than 3.5 percent. Loans are for a period of 30 years but are prepayable.

Debt service loans are possible when the "required levy" for debt service exceeds its "maximum effort" debt service levy (set at 6.3 mills by 1969 statute) by ten percent or $5,000 whichever is less. Debt service loans are limited to not more than one percent of a district's total debt and to the revenue difference between the required and maximum debt service levy. Loan requests are initiated by local school boards. During fiscal 1969 new debt service loans totaled $423,269.

Capital loans may only be used for the purchase of sites and for the acquiring, improving or equipping of school houses. Loans are limited by:

1. The amount approved by a majority vote of the school district's electorate.
2. The district's bonded debt plus the requested loan less the maximum net debt permissible for the district. (Net)

During fiscal 1969 new capital loans totaled $1,350,000 or approximately two percent of the total new long-term bonded debt of Minnesota's school districts.

MISSISSIPPI

Financing Methods. State flat grants for capital outlay and debt service and local bond issues provide the funds for financing school facilities in Mississippi.

Local Provisions

Debt Limit. The maximum amount of school bonds which may be issued by any district is limited to 15 percent of the assessed valuation, except under certain conditions some districts may issue bonds up to 20 percent of the assessed valuation. The legal standard for assessment of property is 100 percent "assessed in proportion to its value." The Census of Governments report stated that locally assessed real property was valued at 10.8 percent of sales prices according to a size-weighted ratio study.

Changes in Debt Limit. No state agency has authority to approve a higher limit in special cases. After certain emergency declarations are made, the board of trustees may obligate the district for capital outlay which can be funded by a local two mill limit.

Initiation of Bond Issue. Bond issues may be initiated by the trustees of the school district or by a petition signed by not less than ten percent of the qualified voters of the district. An election for approval must be held unless a majority of the qualified voters of the district sign a petition requesting the bond issue. If the issue is submitted at an election, a three-fifths majority of the qualified electors voting must vote favorably before it is authorized.

Length of Issue. All school bonds must be serial. The maximum number of years for which they may be issued is 25.

State Approval. No special approval is required by the state for the sale of bonds.

Rate of Interest. Bonds are usually sold on a fixed interest basis. The maximum permissible interest rate is six percent.

Tax Rate Limitations. Taxes necessary for retirement of bond issues are over and above the limits on tax levies for current support.

Building Reserve Fund. Building reserve funds are not permitted in Mississippi.

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State Programs in Support of Public School Construction

State Grants. The State Public School Building Fund allocates $12 per child in ADA as a flat grant for debt service and capital outlay purposes. The State Educational Finance Commission must approve the projects for which the districts use these funds. $6,600,000 was available in this fund in 1968-69.

MISSOURI

Financing Methods. Local bond issues and reserve funds are the major sources of funds for school construction in Missouri. Three token grant programs apportion funds to reorganized districts for construction purposes.

Local Provisions

Debt Limit. Bonded debt is limited to ten percent of the locally assessed valuation plus the valuation of state assessed utilities. The legal standard for property assessment is 100 percent of "true value in money." The 1967 Census of Governments reported that average locally assessed real property was valued at 23.9 percent of sales prices.

Changes in Debt Limit. No state agency may fix the debt limit or approve a higher limit.

Initiation of Bond Issue. School bond issues are initiated by the local boards of education or by petition.

Bonds must be approved in the annual school meeting or a special election by a two-thirds majority of the qualified electors who participate in the election.

Length of Issue. Only serial bonds may be issued. The maximum length of term for which bonds may be issued is 20 years.

State Approval. After the bonds are approved and prior to their sale, they are required to be registered in the office of the State Auditor.

Rate of Interest. Bonds are usually sold at a fixed interest rate on the yield basis. The maximum permissible interest rate is eight percent.

Tax Rate Limitations. Tax levies for debt service are outside of the levy limits prescribed for the current operating program.

Building Reserve Fund. Local districts may, with approval of the voters, establish a property tax levy for a four year period for capital outlay purposes.

State Programs in Support of Public School Construction

State Grants. The Reorganization Building Aid Fund allows for apportionments not to exceed $100 per pupil enrolled up to a total of $50,000 for construction projects in recently enlarged districts. School construction plans and needs must be approved by the State Board of Education. The grant can in no case exceed half of the cost of the facility. $1,750,000 was available in this fund in 1968-69.

The State School Monies Fund provides that an allowance of $1,000 is made for each elementary school building which has been abandoned during the year in connection with the construction of a new central school. Only $30,000 was available in this fund in 1968-69.

The Central Building Aid Fund provides that one-fourth of the cost (up to $2,000) is allowed toward the construction cost of an approved central high school building. The amount allowed is made available when the new building has been constructed according to approved plans. The sum of $20,000 was available in this fund in 1968-69.

Other Provisions Affecting Capital Outlay. Although the state does not have an established plan for assisting school districts with the sale of bonds, districts may obtain consultative suggestions through the building service section of the State Department of Education.

MONTANA

Financing Methods. Local funds are the exclusive source of financial support for school construction in Montana.

Local Provisions

Debt Limit. The maximum amount of school bonds which may be issued by a local high school or elementary district is limited to five percent of its local assessed valuation. The legal standard for assessment of property is 7-100 percent of true and full value. The 1967 Census of Governments reported a size-weighted average ratio of locally assessed value to sales prices of real property as 8.7 percent.

Changes in Debt Limit. No state agency may fix the debt limit or approve a higher limit in special cases.

Initiation of Bond Issue. School bond issues in common school districts may be initiated by the local school board of trustees or by a petition initiated by 20 percent of the qualified voters of the district. They may be initiated in high school districts by the local school board of trustees or by a petition initiated by 30 percent of the qualified voters of the district. All school bond issues must be approved at a special bond election. Forty percent of the qualified voters must vote in the election and a majority of those voting must vote favorably to authorize the bond issue, however, when less than 40 percent but more than 30 percent of the qualified voters have voted, 60 percent of those voting must vote favorably to authorize the bond issue.

Length of Issue. The maximum time for which bonds may be issued is 20 years.

State Approval. Prior to the sale of bonds, the procedures of all bond issues must be approved by the State Attorney General.

Rate of Interest. School bonds may bear an interest rate not in excess of six percent

Tax Rate Limitations. Tax levies for debt service are over and above those for the current school program. Taxes needed to retire school bonds are levied in the necessary amounts by the school district.

Building Reserve Fund. Property tax receipts may be accumulated for school construction purposes. Voter approval is required, and the maximum length of term which may be approved is 20 years. Districts can not accumulate funds in an amount which would exceed five percent of assessed valuation.

NEBRASKA

Financing Methods. There is no state financial support for school construction in Nebraska. Local bond issues and local reserve funds are utilized by local districts to finance school construction.

Local Provisions

Debt Limit. The maximum amount of school bonds which may be issued is limited to 40 percent of assessed valuation in elementary school districts and in districts under 1,000 population maintaining grades K-12. There is no specified legal limit for other districts. The recommended maximum indebtedness is 15 percent of the assessed valuation of the district. The legal standard for assessment of property is 35 percent of actual value. The 1967 Census of Governments reported a size-weighted average ratio of locally assessed value to sales prices of real property as 25.1 percent.

Changes in Debt Limit. No state agency may fix the debt limit or approve a higher limit in special cases.

Initiation of Bond Issue. School bond issues are initiated by the resolution of a majority of members of boards of education or a petition signed by ten percent of the legally qualified votes of the district. In all districts, school bond issues are required to be approved at a special election by 55 percent of the electors who are entitled to vote in a school bond election. Only an elector who is a citizen of the United States, 21 years of age, who has resided in the district 40 days, and who has registered to vote in the county in which he resides shall be entitled to vote at any district meeting or school election.

Length of Issue. School bond issues may be serial or term bonds. Bonds cannot be recalled until at least five years have elapsed from date of issuance, otherwise, there are no limits to the length of term for which bonds may be issued.

State Approval. Approval and certification of the proposed issuance of bonds by the State Auditor of Public Accounts is a prerequisite to the sale of school bonds.

Rate of Interest. The maximum permissible rate of interest is six percent.

Tax Rate Limitations. Tax levies for debt service are over and above those for the current school program. The County Board of Equalization is required to authorize tax levies for debt service as necessary to retire bonds and pay interest.

Building Reserve Fund. A property tax levy of up to four mills for acquiring sites for school buildings or teacherages and purchasing existing buildings for use as school buildings or teacherages including the sites upon which such buildings are located, and the erection, alteration, equipping and furnishing of school buildings and additions to school buildings for elementary and high school grades and for no other purpose is permissible for K-12 or high school districts with more than 1,000 population.

NEVADA

Financing Methods. Local bond issues and local building reserve funds provide the primary means for financing school construction in Nevada. Portions of the Distributive School Fund (the basic state support program) may be used for certain purposes relating to provision of school facilities.

Local Provisions

Debt Limit. The maximum amount of school bonds which may be issued by a local district is limited to 15 percent of local assessed valuation. The legal standard for assessment of property is 35 percent of full cash value. The 1967 Census of Governments reported a size-weighted average ratio of locally assessed value to sales prices of real property as 23.6 percent.

Changes in Debt Limit. No state agency may fix the debt limit or approve a higher limit in special cases.

Initiation of Bond Issue. School bond issues may be initiated by the local school district board of trustees. All school bond issues must be approved at a special bond election. All registered electors in the district may vote on bond issues. Separate ballots are used for property and non-property owners. The bond issue must receive a majority vote of both classes of ballots.

Length of Issue. Only serial bonds may be issued. The maximum time for which bonds may be issued is 20 years.

State Approval. No special approval is required by the state for the sale of bonds.

Rate of Interest. Bonds are sold on either a fixed interest plus premium or a yield basis and must be sold by sealed bid. The maximum permissible interest rate is seven percent.

Tax Rate Limitations. Tax levies necessary for debt service are unlimited.

Building Reserve Fund. Local districts may establish a reserve fund. The state permits a tax levy of up to 35 cents per $100 of assessed valuation per year for up to ten years. Property tax receipts are the source of funds and no voter referendum is required. The State Board of Finance must approve creation of this levy, which is included in an overall 15 mill levy.

State Programs in Support of Public School Construction

State Grants. State moneys distributed to local school districts are allocated for the state foundation program for driver training education and for vocational education. The Distributive School Fund apportionments may be used for rent of schoolhouses; construction, rent, or furnishing of teacherages; bus purchases; and current operation expenses. After these needs have been satisfied, funds may be used for site purchase, repair of buildings, and construction of facilities.

NEW HAMPSHIRE

Financing Methods. Local school bond issues and local reserve funds provide the initial funds for school construction, and the state grants funds for debt service purposes.

Local Provisions

Debt Limit. The maximum amount of school bonds which may be issued by a district is limited to seven percent of the assessed valuation as equalized, except in cooperative 1 through 12 districts, where bonds may be issued up to ten percent of the assessed valuation as equalized for the preexisting districts. The legal standard for assessment of property is 100 percent of full and true value in money and the 1967 Census of Governments reported a size-weighted average assessment to sales price ratio of 48.6 percent for real property.

Changes in Debt Limit. No state agency may approve a higher limit.

Initiation of Bonds. School bond issues may be initiated by the school board, by a petition signed by ten legally qualified voters of the district, or by a petition signed by one-sixth of such voters.

Bonds must be approved at an annual or special school district meeting by a two-thirds majority of the qualified electors who participate in the election. A majority of voters must cast ballots only at special meetings not authorized by the courts. In nine cities bonds may be issued by vote of the city council.

Length of Issue. Only serial bonds may be issued. The maximum time for which bonds may be issued is 30 years.

State Approval. No special approval is required by the state for the sale of bonds.

Rate of Interest. A fixed rate of interest is required. There is no maximum interest rate.

Tax Rate Limitations. Tax levies as necessary for debt service are authorized with the debt approval.

Building Reserve Fund. Part of the annual revenues may be accumulated for school construction projects if approved by the voters when the operating budget is considered.

State Programs in Support of Public School Construction

State Grants. The New Hampshire School Building Aid Fund is distributed to districts that are making annual payments on bonds or serial notes. The amount of aid ranges from 30 to 55 percent of the principal payment. Interest is paid by local districts. Credit is also given for the amount of capital reserve funds and tax revenues used for construction. Construction projects must have been approved. The number of districts participating in 1968-69 was 132. State support for debt service amounted to $2,863. Cooperative districts and A.R.E.A. schools receive aid ranging from 40 percent to 55 percent depending on number of districts joining together. Any district, other than an unorganized district, can qualify for a basic 30 percent state grant toward annual payments on bonds.

Other Provisions Affecting Capital Outlay

It is not necessary that bonds be offered first to a state agency and no state assistance is available in the selling of bonds. If there is no immediate need for the funds from the sale of bonds, these funds may be invested.

NEW JERSEY

Financing Methods. A combination of local borrowing, local reserve funds, and state grants is used to finance school construction in New Jersey.

Local Provisions

Debt Limit. The amount of school building bonds which may be outstanding is based on equalized full valuation of real property, and ranges from 1 1/2 to 4 percent of such valuation, dependent upon grade levels of instruction operated by the school district. The legal standard for real property assessment is 20-100 percent of true value, and the 1967 Census of Governments reported a size-weighted average ratio of assessed valuation to sales price of property of 60.9 percent.

Changes in Debt Limit. Districts may exceed limitations on school indebtedness upon a vote of the electorate if approved by the State Commissioner of Education and the State Board of Local Finance.

Any unused portions of the 3 1/2 percent municipality debt limit may be used for school purposes if proper approval has been obtained and where the boundaries are coterminous.

Initiation of Bonds. Boards of education in Type II districts initiate the proposals and arrange for the issuance of bonds. The proposal must be submitted to the voters and a record of proceedings must be transmitted to the Attorney General for his approval of the legality of the proceedings. Favorable vote of a majority of those voting upon the proposal authorizes the issue.

In Type I districts, the proposals for bonds are also initiated by the Board of Education but must be approved by the board of school estimate and the municipal governing body. The municipal governing body issues the bonds.

Length of Issue. For furniture and equipment, bonds must mature within ten years; for erection of buildings the limits are 20, 30 and 40 years, depending on the type of construction. For acquiring and improving land, bonds must mature within 40 years.

State Approval. No special approval is required by the state for the sale of bonds.

Rate of Interest. All bonds shall be sold at not less than par, may be offered at more than one interest rate, but must be awarded to the bidder offering the lowest interest rate. The maximum permissible interest rate is six percent. This limit has been temporarily lifted for the period from July 3, 1969 to July 1, 1970. There is no limit during this period.

Tax Rate Limitations. Tax levies, as necessary, are authorized and required for debt service payment and are in addition to other authorized taxes.

Building Reserve Fund. Local districts accumulate state and local revenues for future school construction or debt service in a local Capital Reserve Fund.

State Programs in Support of Public School Construction

State Grants. The School Building Aid Fund allots $45 per resident pupil less the proceeds of a .75 mill local fair share levy on the equalized value of property. The state apportionment is to be used for debt service, capital outlay, or accumulated for future use. The amount of $28,579,377 was available for this distribution in 1968-69.

Districts that are not able to provide necessary facilities can receive additional emergency state aid. The apportionments can not exceed $25 per pupil enrolled, and the proceeds are to be used for debt service.

NEW MEXICO

Financing Methods. Local bond issues provide the only method for financing school construction in New Mexico.

Local Provisions

Debt Limit. The maximum amount of school bonds which may be issued by a local district is limited to six percent of its local assessed valuation. The legal standard for assessment of property is 100 percent of value. On November 9, 1968, the New Mexico State Tax Commission General Order #18 (ordered by the New Mexico Supreme Court) established a uniform assessment ratio of 33 1/3 percent.

Changes in Debt Limit. No state agency may fix the debt limit or approve a higher limit in special cases.

Initiation of Bond Issue. School bond propositions may be initiated by the local school district board of trustees or upon a petition filed with the local school board signed by qualified electors of the school district who paid a property tax on property in the school district the preceding year. The number of signatures on the petition shall be at least ten percent of the number of votes cast for governor in the school district at the last preceding general election. A bond election must be held within 90 days from the date a properly signed petition is filed. A favorable vote of the majority of the property owners who are qualified electors voting in the election is necessary to issue school bonds.

Length of Issue. Bonds must be serial, or can be term if for $10,000 or less. The maximum time for which bonds may be issued is 20 years.

State Approval. All school bond issues must be approved by the Attorney General of the State.

Rate of Interest. School bonds may bear an interest rate not in excess of seven percent.

Tax Rate Limitations. The school district must levy sufficient property taxes annually to pay bond principal and interest.

Building Reserve Fund. No legal provisions exist for establishment of building reserve funds.

NEW YORK

Financing Methods. School buildings are financed in New York with local general obligation bonds, building reserve funds, state grants, and combinations of these methods. New York City, in 1967, authorized a specific type of local authority financing.

Local Provisions

Debt Limit. Non-city school districts may bond to ten percent of the units' state-equalized full property valuation with a majority approval of the voters. The debt limit may be exceeded if approved by two-thirds of the voters and the Board of Regents.

City school districts of less than 125,000 population may bond to five percent of their state-equalized full property valuation with a majority approval of the voters. The debt limit may be exceeded if approved by 60 percent of the voters and the Board of Regents.

City school districts with more than 125,000 population must share a nine percent of their state-equalized full property valuation bonding limit with other units of local government except for New York City which has a similar overall debt limit of ten percent.

Changes in Debt Limit. Limits applying to non-city districts are statutory. City school district debt limits are constitutional. In order to change debt limits for either type district, a constitutional amendment or law change would be necessary.

Initiation of Bonds. Bond issues are initiated by local boards of education with the approval of the electorate.

Length of Issue. Only serial bonds may be issued. The maximum length of term for which bonds may be issued is 30 years.

State Approval. State approval for bond issues must be obtained after the local election.

Rate of Interest. Bonds are sold at a public sale. Recent legislation removed limits on interest rates, if the agreement or contract to pay interest on bonds or notes issued was made prior to March 31, 1970.

Tax Rate Limitations. Tax rates for debt service are not included in tax rate limitations.

Building Reserve Fund. Local districts are permitted to establish, with voter approval, a reserve fund which can be used to accumulate revenues for future construction or debt service needs. There are no rate or time limits except those approved by the electorate.

Local Building Authority. The New York City Educational Construction Fund provides for construction of elementary and secondary public schools in combined-occupancy buildings. It is a state-authorized public benefit corporation operated by nine trustees. The program has three principal objectives. It provides for maximum combined use of land; provides a new source of financing outside the city's capital budget; and reinforces the economic and social vitality of commercial areas and residential neighborhoods.

The fund will have a capital reserve fund but also will have a first lien on state school aid to New York City, which should strengthen the position of its securities in the municipal market. Three revenue sources will be available; payments for sale of airrights, payments by the developer in lieu of taxes, and rental payments for the school. Bonds are limited to 40 years and notes to five years; these securities are legal investments for all organizations authorized to buy state obligations.

State Programs in Support of Public School Construction

State Grants. A portion of the General Aid Fund is allocated to local districts for construction and debt service purposes. The apportionments are based upon differentiated per pupil allowances as related to the rated capacity of the project. Cost allowances are updated monthly to provide for changes in material and labor costs. The allowances as of October, 1969, were $2,108 per pupil, K-6; $3,075 per pupil, grades 7-9; and $3,293 per pupil for grades 7-12 and/or 10-12. Related costs of site, furniture, equipment, and fees are included in approved project costs--this allowance is 20 percent of construction cost allowances for grades K-6 and 25 percent of cost allowances for grades 7-12.

Reconstruction or modernization is also incorporated in the grant program. Reorganized districts are entitled to 25 percent additional building expenses aid, but the total apportionment can not exceed 95 percent of approved expenditures for debt service and capital outlay.

The aid for debt service and capital outlay through the General Aid Fund amounted to $178,981,149 in 1968-69. In addition, approximately $15 million was distributed for regional buildings and for incentives for reorganized districts.

NORTH CAROLINA

Financing Methods. School districts in North Carolina may finance facilities through the use of local general obligation bonds, state grants, a state loan program or a combination of these methods.

Local Provisions

Debt Limit. School districts may bond to five percent of their assessed valuation. In counties which have assumed school district debt, the bonding limit is eight percent. The Census of Governments reported a size-weighted average ratio of assessed value to sales of locally assessed taxable real property of 40.6 percent in 1966.

Change in Debt Limit. There is no provision for changing the debt limits.

Initiation of Bond Issues. Bond sales are initiated by local school boards.

State Approval. Bond issues must be approved by a majority of the voters. Boards of County Commissioners may issue bonds for the use of the school district without voter approval to two-thirds the amount by which the total county debt was reduced the preceding year. All bond issues must also have the approval of the Local Government Commission of the State.

Rate of Interest. Bonds are commonly sold on a yield basis. There is no limitation on the rate.

Tax Rate Limitations. All bonds are unlimited tax bonds.

Reserve Fund Levy. A capital reserve fund may be established under North Carolina law, either with or without a vote of the people. The Board of County Commissioners must approve.

State Grant Program

North Carolina has appropriated grants-in-aid for school facilities totaling $200 million since 1949. The original grant in 1949 consisted of $25 million from a Post-War Reserve Fund plus a $25 million state bond issue. This was followed by a voter approved $40 million bond issue in 1953 and, in 1963, approval to issue $100 million in bonds for school building grants.

Under the terms of the North Carolina Public School Facilities Fund of 1963, funds are allocated to counties on a pro rata average daily membership basis. Applications for grants are approved on the basis of a long-range plan of total development approved by the State Board of Education. From the 1963 authorization a total of $84 million had been issued by June 30, 1969.

A state school planning division aids districts with all aspects of planning, including: program, organization, finance, facilities and the like. The Division approves plans and specifications for all new construction.

State Loan Program

The State Literary Fund was established by statute in 1903. It serves as a loan fund to county governments who reloan the funds to school boards to erect and equip school plants. The State Literary Fund was derived from the sale of state lands, stocks, bonds, and other property belonging to any state fund for support of education. The fund totals approximately $4.5 million.

The State Literary Fund is managed by the State Board of Education. Loans are made to county governments which in turn make loans to county and city school boards. Debt service payments are deducted from local taxes by the county. The interest rate for loans from the State Library Fund is four percent. The amount of the loan is not limited but is determined on the basis of an evaluation of the local situation. Outstanding loans on June 30, 1969 totaled $3.6 million. During fiscal 1969 new loans totaled $586,000 or approximately 1.2 percent of the total new long-term debt of North Carolina's school districts.

NORTH DAKOTA

Financing Methods. School districts in North Dakota may finance facilities through the use of school building funds, general obligation bonds, a state revolving loan fund, or a combination of these methods.

Local Provisions

Debt Limit. Debt to ten percent of local assessed valuation is possible. Statutes specify property assessment at 100 percent of market value. Property is to be taxed at 50 percent of assessed value. The Census of Governments reported a size-weighted ratio of assessed value to sales price of taxable real property of 11 percent, in 1966.

Initiation of Bond Issues. Bond issues are initiated by the local district.

Length of Term. Statutes prescribe serial bonds for a term not to exceed 20 years.

Approval. Approval by 60 percent of the voters is required. The constitutionality of this provision is being challenged in the courts in 1969.

Interest Rate. Bonds are sold at a fixed interest rate not to exceed six percent. They must first be offered to the state.

Tax Rate. The rate necessary to meet bond and interest payments may be over and above other school rates.

Current Funds. Upon 60 percent approval of the voters a tax levy, no greater than ten mills, for a building may be established by the school board. Revenues to this fund may be used for capital outlay or paid to the state to meet lease payments contracted through the revolving state loan program.

State Loan Program

The State School Construction Fund was established in 1953 with a $5 million appropriation. Interest on loans, set by statute at 2.5 percent, has increased the fund to its current level of $7,507,000. Currently 92 loans are outstanding totalling $6,783,603. Loans must be repaid within 20 years from the local building fund levy. During fiscal

1959 State School Construction Fund commitments were $950,000. This amount approximates one-third of the North Dakota school district's new long-term debt obligations for the year.

The state board of education and state superintendent serve exofficio as the State School Construction Board for purposes of administering the program. The board enters into a lease-rental contract with qualified districts.

Technically the role of the state approaches that of a state authority since it pays for the buildings and holds title during the life of the lease. However, since only public funds are utilized and in practice leasing school boards have virtually the same responsibilities as those in locally financed building programs, the program is here classified as a loan program.

Additional statutory requirements to participate in the State School Construction Fund are:

1. A school district must be bonded to its legal limit.
2. Loans are limited to 15 percent of taxable valuation to $150,000 or ten percent of taxable valuation to $400,000.
3. School districts must be levying the maximum mill levy for a building fund before entering into building lease with the state.
4. Applications are considered in the light of the buildings' effect on attendance and administrative areas, design for education, and the ability of the district to amortize the debt.

OHIO

Financing Methods. Limited-repayment state loans, local bond issues, and local reserve funds are used to finance school construction in Ohio.

Local Provisions

Debt Limit. The maximum amount of school bonds which may be issued by a local district is limited to nine percent of its locally assessed valuation. The legal standard for property assessment is 50 percent of true value, but actual assessment-sales ratios averaged 34.3 percent in 1966, according to the 1967 Census of Governments.

Changes in Debt Limit. Net indebtedness cannot exceed four percent without consent of the State Tax Commissioner. Net indebtedness can not exceed six percent of assessed valuation unless consent is obtained from the State Superintendent of Public Instruction. The 1969 legislation provides that "special need" districts may also exceed the nine percent limitation, but procedures for administering this act have not yet been developed.

Initiation of Bond Issue. A local board of education, by a vote of two-thirds of all its members, may submit to the electors the question of issuing bonds.

Length of Issue. The maximum length of term of bond issues is 23 years.

State Approval. If net indebtedness exceeds four percent of taxable property, the State Board of Taxation must approve the issue. If indebtedness exceeds six percent, the State Superintendent of Public Instruction must also approve. The state public employees retirement system and the state industrial commission may purchase local school bond issues, but this is rarely done.

Rate of Interest. The maximum interest rate permitted is six percent.

Tax Rate Limitations. Local boards must levy property tax sufficient in amount to pay the interest and to retire at maturity all bonds authorized.

Building Reserve Fund. Local boards may establish a permanent improvement fund for acquiring, constructing, or improving any permanent improvements for which a school district has authority. Revenues for this fund are ordinarily provided by year to year appropriations from the general fund, but may also be obtained from a building or site purchase levy. Funds may be accumulated over a period of years.

State Programs in Support of Public School Construction

State Grants. Direct state grants are not made, but the State School Building Assistance Program is a combination loan-grant program. Details are given below.

State Loan Fund. The State School Building Assistance Program is designed to aid those school districts which can demonstrate the need for school facilities that can not be provided within the nine percent debt limitations. This program has been in existence since 1957, and a total of $81 million in state funds for the program has been obtained from state bond issues. Since 1957, 105 districts have participated in the program, and 12 districts have participated more than once.

Each applying district is surveyed by the State Department of Education to determine need. A priority ranking of all applying districts is developed, based upon projected enrollment, adequacy of existing facilities, estimated cost of needed facilities, and local funds available. Districts that qualify for State School Building Assistance agree to purchase the needed facilities from the state, and the State Department of Education acts as the owner of the building during construction and until either repayment of the state advance is made or 23 years elapses. The local district, with state approval, selects the project architect. The site is purchased by the state.

Participating districts are required to levy a local property tax rate of 1/2 mill to obtain funds toward repayment of the advance from the state. The levy is to extend for 23 years, unless repayment of the entire sum is accomplished earlier by the proceeds of the 1/2 mill levy. Based upon 1965 assessment data, it appears that approximately 27 percent of the state advances will actually be repaid, and the balances will eventually become a grant from the state.

Approved project costs are determined largely by application of regional cost indexes (developed by the various architectural societies in Ohio) to the approved capacity of the project. Site, water supply, sewage treatment, and loose equipment cost allowances are computed separately for each project depending upon circumstances existing in each case.

No new state funds have been appropriated for this program since 1965. Repayments from participating districts are placed in a Rotary Fund, and become available for use for other districts. The total amount paid into this fund from 1957 to April 30, 1969 was $3,971,228. Nine projects were in various stages of progress in 1969.

OKLAHOMA

Financing Methods. Local building reserve funds and local bond issue proceeds are utilized for constructing school buildings, acquiring or improving school sites, repairing, remodeling or equipping buildings, or acquiring school furniture, fixtures or equipment.

Local Provisions

Debt Limit. The maximum amount of school bonds which may be issued by a local district is limited to ten percent of its local assessed valuation. The legal standard for assessment of property is 35 percent of fair cash value. The 1967 Census of Governments reported a size-weighted average ratio of locally assessed value to sales prices of real property as 14.2 percent.

Changes in Debt Limit. No state agency may fix the debt limit or approve a higher limit in special cases.

Initiation of Bond Issue. School bond issues may be initiated by the local school district board of trustees. All school bond issues must be approved at a special election by 60 percent of the qualified electors who participate in the election.

Length of Issue. Only serial bonds may be issued. The maximum time for which bonds may be issued is 25 years.

State Approval. All school bond issues must be approved by the Attorney General of the state.

Rate of Interest. School bonds may bear an interest rate not in excess of six percent.

Tax Rate Limitations. Tax levies for debt service are over and above those for the current school program. Taxes needed for debt service are levied in the necessary amounts by the school district.

Building Reserve Fund. Local districts may establish a reserve fund. The state does not regulate the length of term, but does stipulate a maximum levy of five mills per dollar of assessed valuation per year. Property tax receipts are the source of funds, and voter approval is not required. Funds may not be used for debt service or lease-rental payments for school buildings.

OREGON

Financing Methods. Local bond issues and building reserve funds provide the financing devices for construction of school facilities in Oregon. There is no state grant program for construction of public elementary and secondary schools, but the state does grant funds for community college construction.

Local Provisions

Debt Limit. The maximum amount of school bonds which may be issued by a local district is limited to .55 of one percent for each grade from 1 through 8, and .75 of one percent for each grade 9 through 12. These limits are based on the total value of all taxable property in the district, which is the value determined by increasing the assessed value to the true cash value. The Census of Governments reported a size-weighted average ratio of assessed valuation to sales of locally assessed taxable real property of 18.9 percent in 1966.

Changes in Debt Limit. No state agency may fix the debt limit or approve a higher limit in special cases.

Initiation of Bond Issue. School bond issues may be initiated by the filing of a petition with the local board of education by ten percent or 100, whichever is the lesser, of the qualified voters of the district. All school bond issues must be approved at a special bond election by a majority of the qualified registered voters who participate in the election.

Length of Issue. Only serial bonds may be issued. The maximum length of issue is 30 years.

State Approval. No special approval is required by the state for the sale of bonds.

Rate of Interest. School bonds are usually sold on a fixed interest basis. The maximum permissible interest rate is seven percent.

Tax Rate Limitations. Tax levies for debt service are over and above those for the current school program. Taxes needed for debt service are levied in the necessary amounts by the school district.

Building Reserve Fund. With approval of the electorate, a building reserve fund and a serial property tax levy for the fund may be established. The maximum term for which voter approval may be requested is ten years.

State Grants. No specific grant program for public elementary and secondary school building purposes exist.

PENNSYLVANIA

Financing Methods. Local bond issues, capital reserve funds, five-year loans, local and state school building authorities, and state grants are utilized for public school construction in Pennsylvania.

Local Provisions

Debt Limit. A 1968 constitutional amendment replaced the previous local debt limit which had been expressed as a percentage of assessed valuation. The legislature is charged with establishing the ratio of debt to income and with establishing the applicable period of years.

Initiation of Bond Issues. Bond issues may be initiated by the local school boards for site purchases, construction, remodeling or repair of school buildings, purchase of buses and equipment, and debt refunding under specified conditions.

Length of Issue. Only serial bonds may be issued, except for certain small bond issues which do not exceed certain limits. General obligation bonds may not be issued for longer than 30 years. Principal and interest amounts payable in any year cannot exceed the amount payable in any prior year by more than $1,000.

State Approval. Only general obligation bond issues must be reported to and approved by the Department of Community Affairs.

Rate of Interest. Bonds must be sold for at least par and carry a fixed rate of interest. The maximum permissible interest rate is seven percent.

Tax Rate Limitations. When bonds have been issued, the taxes necessary to retire them must be levied, but these levies must come within the limits of the levies prescribed for the current program. Additional levy amounts are authorized to provide funds for rental payments to school building authorities.

Assessed Valuation. The Census of Governments reported the size-weighted ratio of assessed valuation of locally assessed real property to sales prices in 1966 as 31.4 percent.

Capital Reserve Fund. An earmarked three mill property tax for school construction, limited to five years, may be levied without voter approval.

Five-Year Loans. Local districts may utilize proceeds of five-year loans for school construction.

Municipality Authorities. Local authorities, first authorized by the General Assembly in 1941, were occasionally used for school construction after 1945. Municipality authorities for the purpose of constructing and leasing school buildings were first authorized in 1951. Local school municipality authorities sell revenue bonds for each building project. Annual rental is determined by amortizing the project over a period not exceeding 40 years. Terms are held at 35 years, if possible. The terms of bond issues and rental contracts are usually shorter than the legal maximum. The maximum permissible interest rate is seven percent.

State Programs in Support of Public School Construction

State Grants. Pennsylvania authorizes substantial state reimbursement of the approved cost of school facilities, limited by specified amounts per pupil for elementary, secondary, area vocational schools. The appropriation for state support of capital outlay was $50 million for 1968-69. State support is granted toward the cost of State Public School Building Authority, Municipality Authority, and Nonprofit Corporation Leases. The amount is determined by multiplying the school district's capital account reimbursement fraction for 1967 or aid ratio (whichever is larger) by the approved reimbursable rental or approved reimbursable sinking fund charge. The ratio of project cost to the amount of an authority bond issue minus the bond discount is used in determining the reimbursable amount. Statutes provide that in determining reimbursable costs the rated pupil capacity be multiplied by $2,300 for elementary buildings and by $3,000 for secondary buildings. To this amount is added the cost of rough grading, sewage disposal facilities, and the cost of acquiring the site. The lesser of this amount or actual cost is used. State reimbursement is also made to districts which use local funds only for construction.

State Public School Building Authority. Legislation establishing a state school building authority was enacted in 1947. Pennsylvania, having utilized authority financing over a period of years, was the first state to provide a state school building authority. Revenue bonds may be issued for a period of 40 years, but in practice the term is usually shorter. The total amortized cost of each project is met by rentals for the appropriate number of years. The maximum interest rate for bonds sold by the authority was seven percent in 1969.

RHODE ISLAND

Financing Methods. State grants, local bond issues, and local reserve funds are used to finance school construction in Rhode Island.

Local Provisions

Debt Limit. The amount of bonds issued by a town or city for all purposes, including school purposes, may not exceed three percent of the locally assessed valuation. The legal standard for property assessment is a locally established uniform percentage of full and fair cash value. The 1967 Census of Governments reported a size-weighted average ratio of assessed value to sales price of real property of 55.3 percent.

Changes in Debt Limit. Districts may exceed this limit when authorized to do so by the State Legislature for specified amounts and purposes.

Initiation of Bonds. Bond issues for school facilities are proposed by school authorities, but the bonds are issued by the town or city government, except in the case of regional school districts which also are authorized to issue bonds. All bond issues must be submitted at an election and must be approved by a majority of the qualified electors voting on the proposition.

Length of Issue. Bonds for schools may be either serial or term bonds. There is no limit to the number of years for which bonds may be issued.

State Approval. No special approval is required by the state for the sale of bonds.

Rate of Interest. Bonds may be sold on either a yield basis or a fixed interest rate. The maximum permissible interest rate is determined by the specific legislation authorizing the issuance of bonds which exceed the legal debt limit. The maximum permissible interest rate is six percent on bonds issued within the legal limits.

Tax Rate Limitation. Debt service levies are in addition to other levies and are not limited but must be approved by a vote of the people.

Building Reserve Fund. Cities or towns may establish a reserve fund for capital outlay purposes, including school construction. Property taxes are the revenue source for such reserve funds, and approval by referendum is necessary.

State Programs in Support of Public School Construction

Grant Program. Additional grants are made to school districts whose debt service for school construction exceeds the tax rate of $3.00 per thousand on the equalized weighted assessed valuation of the school district after deduction of the state's regular grant. For the 1969-70 fiscal year, $4,500,000 was available in this fund.

SOUTH CAROLINA

Financing Methods. State appropriations, state bonds, and local bond issues are used to finance school construction in South Carolina.

Local Provisions

Debt Limit. School bonds outstanding may total up to eight percent of the valuation of the locally assessed property plus the valuation of the state assessed business property in the district. If submitted state-wide to qualified electors at next general election thereafter and approved, ratification by the general assembly will permit a district to exceed constitutional limitation up to amount specified in the referendum.

Changes in Debt Limit. No state agency has the authority to approve a higher limit even in special cases.

Initiation of Bonds. Bonds are initiated by local school districts. In some cases, bond issues are authorized by special local legislative acts. Unless otherwise provided school bond issues must be approved by a majority of the qualified electors who participate in the election.

Length of Issue. No bond shall mature later than 25 years from the date as of which it may be issued.

State Approval. No special approval is required by the state for the sale of bonds. The State Educational Agency must, however, approve building plans for any capital improvements.

Rate of Interest. The maximum permissible rate of interest is seven percent unless approved for a higher rate by the State Budget and Control Board.

Tax Rate Limitations. Taxes for debt service are not limited and are in addition to tax rates for current operation. The levy must be sufficient for payment of interest and principal on all outstanding bonds in the district.

Building Reserve Fund. The state assumes no jurisdiction over local revenues. Presumably, local districts could establish reserve funds.

State Programs in Support of Public School Construction

Grant Program. The South Carolina State School Building Program is financed by annual appropriations by the General Assembly and by proceeds from the sale of State School Bonds authorized by the Governor and State Treasurer. Each year an amount is reserved from the appropriation to pay the principal and interest payments on outstanding State School Bonds coming due in that year. The balance plus the net proceeds of the sales of bonds authorized to be sold during the year are allocated to school districts on the basis of pupils on 35-day enrollment during the previous year.

The administration of the school building program is assigned by statute to the State Board of Education. The funds allocated may be used for capital improvements including school sites, school buildings and equipment and for the payment of principal and interest on school district bonds and notes issued for capital improvements when such improvements have been authorized by the State Board of Education. No district may spend any of the funds allocated to them without the approval of the State Board of Education. The amounts allocated to a school district remain credited to the school district until requisitioned for purposes approved by the State Board of Education. The Office of School Planning and Building in the State Department of Education, staffed by an architect and engineers, is responsible for the review of school district applications and construction plans and for the inspection of proposed school sites. This staff inspects buildings when construction is completed and also provides consultative services to school administrators, architects, contractors and school boards concerning construction of schools and the selection of school sites.

The state can never issue school bonds in an amount greater than $137,500,000. Since the beginning of the program in 1951, $219,000,000 worth of bonds have been issued by the state. There is an outstanding balance as of today in the amount of $88,475,000. Since the beginning of the program in 1951, $273,278,276.30 in state funds have been allocated to the school districts. The state this year will appropriate $30.00 for each pupil on 35-day enrollment during the previous year. The districts never receive the full amount of this allocation since bond payments and interest come out of the allocation before it goes to the districts. This is a continuing program and as bonds are paid each year new bonds are issued to keep the program in balance and to make sure that the school districts will have some school building funds coming into the district each year.

SOUTH DAKOTA

Financing Methods. Local building reserve funds and the proceeds of local bond issues are used to finance school construction in South Dakota.

Local Provisions

Debt Limit. The maximum amount of school bonds which may be issued by a local district is limited to ten percent of local assessed valuation. The legal standard for assessment of property is 60 percent of true and full value in money. The 1967 Census of Governments reported a size-weighted average ratio of locally assessed value to sales prices of real property as 34.3 percent.

Changes in Debt Limit. No state agency may fix the debt limit or approve a higher limit in special cases.

Initiation of Bond Issue. School bond issues may be initiated by the local school board. All school bond issues must be approved at a general or special election. Sixty percent of the votes cast at the election must be favorable to authorize the issuance of bonds.

Length of Issue. Only serial bonds may be issued. The school board may determine the number of years for a bond issue.

State Approval. No special approval is required by the state for the sale of bonds.

Rate of Interest. The rate of interest of school bonds shall be fixed by the school board and placed in the resolution calling for the school bond election.

Tax Rate Limitations. Tax levies for debt service are over and above those for the current school program. The school board shall provide by resolution for the collection of the necessary annual tax. The County Auditor shall annually levy such tax.

Building Reserve Fund. Local districts may establish a reserve fund. The state does not regulate the length of term but does stipulate a maximum levy of five mills per dollar of assessed valuation per year. Property tax receipts are the source of funds, and voter approval is not required.

TENNESSEE

Financing Methods. State grants, local bond issues, and local reserve funds are used to finance school construction in Tennessee,

Local Provisions

Debt Limit. There is no legal debt limit in Tennessee.

Initiation of Bonds. School bond issues are authorized by the county or city fiscal body rather than by the board of education.

Voter approval not required unless the county or city body decides one is necessary. If a referendum is held, a majority vote is necessary for approval of the issue.

Length of Issue. Both serial and sinking fund bonds may be issued. Bonds may be issued for a maximum of 40 years.

State Approval. No special approval is required by the state for the sale of bonds.

Rate of Interest. All statutory rate limitations have been removed. A constitutional limit of ten percent does exist.

Tax Rate Limitations. Taxes for debt service are not limited and are in addition to tax rates for current operation. The levy must be sufficient for payment of interest and principal on all outstanding bonds in the district.

Building Reserve Fund. Local governing boards have the authority to establish a reserve fund. No referendum is required, and property taxes and local sales tax proceeds can be used for revenue.

State Programs in Support of Public School Construction

State Grants. The Capital Outlay Fund is closely related to the State Foundation Program Aid Fund. The distribution for each county for 1969-70 is fixed as $19.5557717 per child in average daily attendance. A calculation is made for each county to determine the support level. The support level is then reduced on an equalizing basis by computing each county's percentage share of the total state estimated true value of property and is adjusted by an economic index for each county.

Capital outlay funds distributed to the counties are then apportioned among the county, city, and special districts therein on the basis of the number of teaching positions which were maintained during the previous year in the minimum foundation program.

Capital outlay apportionments can be used for site purchase and development; construction and repair of buildings; for purchase of school buses, school buildings, and equipment; and for debt service.

Supplemental State Aid is a guarantee provision in the school finance statutes which provides that no district shall receive less state school capital outlay funds than was distributed in 1950-51, provided that said guaranteed amount shall not exceed the per pupil amount allotted in 1960-61.

In 1968-69 the amount available for capital outlay purposes from the state was $10,382,000. In 1969-70, the total available is $10,420,999.

TEXAS

Financing Methods. Local bond issues are used to finance school construction in Texas. State agency purchase of local bond issues is possible. Incentive aid for school building construction and retirement of bonded indebtedness for certain consolidated school districts is possible.

Local Provisions

Debt Limit. The maximum amount of school bonds which may be issued by a local district is limited to ten percent of the assessed valuation or to the extent that a ten mill tax levy will finance the debt service. The legal standard for assessment of property is 100 percent of full and true value in money. The 1967 Census of Governments reported a size-weighted average ratio of locally assessed value to sales prices of real property as 15.6 percent.

Changes in Debt Limit. No state agency has the authority to approve a higher limit in special cases.

Initiation of Bond Issue. School bond issues must be initiated by a petition signed by the voters. All school bond issues must be approved in a special election by a majority of the voters who participate in the election.

Length of Issue. Only serial bonds may be issued. The maximum length of term for which bonds may be issued is 40 years.

State Approval. Bond issues must be approved by the State Attorney General, after the election. Bonds must first be offered to a state agency which can purchase local bond issues which are not in excess of seven percent of the taxable valuation of the issuing district.

Rate of Interest. All interest rate limitations on bonds have been removed.

Tax Rate Limitations. Maximum tax rates for school districts may be 15 mills for current expenses if bonded indebtedness is voted under the unlimited bond tax provisions of the statutes. In the latter case, the necessary tax levy for debt service is in addition to the levy for current expenses.

UTAH

Financing Methods. State grants, local reserve funds, and local bond issues are used to finance school construction in Utah.

Local Provisions

Debt Limit. School bonds may be issued up to four percent of the reasonable fair cash value of taxable property in the school district. The legal standard for assessment of property is 30 percent of its reasonable fair cash value. The 1967 Census of Governments reported a sales based ratio of assessments for all locally assessed real property of 14.4 percent.

Changes in Debt Limit. No state agency has the authority to approve a higher limit even in special cases. The debt limit is constitutional.

Initiation of Bonds. Bonds are initiated by local boards of education. The constitution provides that bonds must be approved in a special election by a majority of the property owners in the district who participate in the election. To be eligible to vote, a property owner must have paid a property tax during the past 12 months.

Length of Issue. Both serial and sinking fund bonds may be issued. Bonds may be issued for a maximum of 40 years.

State Approval. No special approval is required by the state for the sale of bonds, but they must first be offered to the state.

Rate of Interest. Bonds are usually sold on a fixed interest basis. The maximum permissible interest rate was six percent, but has been raised to eight.

Tax Rate Limitations. Taxes for debt service usually are not limited and are in addition to tax rates for current operation. The levy must be sufficient for payment of interest and principal on all outstanding bonds in the district.

Building Reserve Fund. Utah districts can build a reserve fund upon resolution of the local board from surplus operation funds or from special capital outlay levies. Unearmarked state and Federal funds may become part of the fund and earmarked state and federal capital outlay allotments may also be accumulated. Each board has the authority to levy millage up to a specified maximum geared to the Basic Foundation Program without a referendum. An additional ten mill capital outlay may be established with voter approval.

State Programs in Support of Public School Construction

State Grants. Two separate programs for granting state funds for school construction purposes exist in Utah. The first, the Bonding Unit or Alternate Building Aid Program, is designed to aid school districts with property taxpaying capacity below the average for the state.

State support under the Bonding Unit Aid portion is determined by calculating the district's yield from a 12 mill qualifying tax and, except for the initial year of participation, deducting this amount from the smaller of (a) ten percent of the highest amount of long-term bond liability, plus interest, during any five year eligibility period or (b) the actual bond principal payments plus interest made during the preceding school year. For the initial qualifying year, the calculation is based upon ten percent of the long-term liability.

The Alternate Building Aid portion of the fund provides that the state shall contribute funds to each district which is bonded to 95 percent of legal capacity and levies up to 1 1/2 mills in excess of the 12 mill qualifying rate. A district can not receive less under this provision than it would if calculated under the Bond Unit Aid portion.

The second program, the Continuing School Building Aid Fund, provides for state support determined by multiplying $700 times the number of formula determined "school building units." From this calculated amount, the proceeds of a qualifying levy of six mills are deducted. Accounts are maintained for each participating district and allocations may be withdrawn for approved projects or accumulated for future use.

For 1968-69, $2,945,000 was appropriated for the Bond Unit or Alternative Building Aid Program. The appropriation for the Continuing School Building Aid Fund was $1,300,000.

VERMONT

Financing Methods. A combination of state grants for construction and debt service, local bond issues, and local reserve funds is used to finance school construction in Vermont.

Local Provisions

Debt Limit. Bond issues are limited to ten percent of the locally assessed valuation of the school district except when construction projects under the state aid for school building construction law are involved. The legal standard for assessment of property is a locally established uniform percentage up to 100 percent of fair market value. The 1967 Census of Governments reported a size-weighted average ratio of assessed value to sales prices of real property as 27.5 percent.

Changes in Debt Limit. The bonding limit is set aside for project approval under the provisions of the school building construction statute.

Initiation of Bonds. Bonds are initiated by the local school district. No bonds may be issued or debt created without a favorable vote by a majority of the qualified voters.

Length of Issue. Only serial bonds may be issued. The maximum time for which bonds may be issued is 20 years, unless special, enabling legislation provides otherwise.

State Approval. No special approval is required by the state for the sale of bonds.

Rate of Interest. Bonds may be sold on a yield basis or the open market. Maximum interest rate at present is six percent.

Tax Rate Limitations. There is no specified maximum limit to the tax rate for the schools which may be approved by the voters of the district.

Building Reserve Fund. Accumulation of local school revenues for future public school construction or debt service purposes is possible. Creation of such a fund is voted by the qualified electors, and a special poll tax is the revenue source.

State Programs in Support of Public School Construction

State Grants. The School Building Construction Fund provides for state grants of 30 percent of approved construction cost of schools voted by local districts. The state will also provide 75 percent of construction costs for special education classrooms and up to 100 percent of the cost of area vocational school construction.

Legislation in 1969 provided for the state to reimburse local districts for 20 percent of principal and interest charges for projects, which originally received state support from the School Building Construction Fund at the 30 percent level. The act applies to projects which had been approved by the state and have received aid from the school building aid fund.

The 1968-69 appropriation for the School Building Construction Fund was $4,648,259.

VIRGINIA

Financing Methods. School districts in Virginia may finance facilities through the use of school building reserve funds, local general obligation bonds, a state loan program, a state authority, or a combination of these methods.

Local Provisions

Debt Limit. The constitutional debt limit for all cities and towns is 18 percent of the assessed valuation unless they have a charter specifying other limits. Assessment ratios are optional with local government officials. The Census of Governments reported a size-weighted average ratio of assessed value to sales of locally assessed taxable real property of 27.4 percent in 1966. No debt limit exists for the 96 counties.

Change in Debt Limit. There is no provision for a state agency to change debt limits.

Initiation of Bond Issues. Bond issues are initiated locally. There is no requirement that they be offered to a state agency.

Length of Issue. Bond issues are limited to 40 year terms. Serial bonds are not required.

State Approval. State approval is not required for a school bond issue.

Local Approval. A favorable vote by the majority of those voting is required to issue bonds except for bonds securing state loans.

Rate of Interest. Bonds are usually sold on a fixed interest basis. They may not exceed six percent rate.

Tax Rate Limitations. General obligation bonds are unlimited tax bonds.

Reserve Fund Levy. Districts may levy a tax for a building reserve fund. Such a levy is considered in the tax rate limit for maintaining schools.

State Authority

The Virginia Public School Authority was established by statute in 1962. It is a political subdivision and agency of the Commonwealth of Virginia. It was created for the purpose of purchasing school district bonds at a lower interest rate than that available on the open market. Bond issues by the Authority provide funds for the purchase of school district bonds. Authority bonds are not state obligations. Repayment is secured by funds transferred from the Virginia Literary Fund and by school district debt service payments. Uncommitted collateral funds are returned to the Virginia Literary Fund by the tenth of January each year. The Authority is administered by a Board of Commissioners consisting of the State Treasurer, the State Comptroller and five members appointed by the Governor. In 1968-69 the Authority purchased $10 million of school district bonds.

State Loan Program

Literary Fund. Virginia provides school construction loans from the Literary Fund to school districts. The Literary Fund is a permanent fund containing the proceeds from all public school lands, escheated property, and state fines. It was established by the Virginia Constitution of 1810. It is managed by the State Board of Education. The Constitution provided that Literary Fund assets in excess of $10 million might be transferred by the legislature to other funds for school purposes. Transfers are used as collateral for bond issues of the Virginia Public School Authority.

Local school boards may apply for Literary Fund loans without a referendum. Interest rates on loans may not exceed three percent. The amount of a loan is negotiated according to the district's need.

Literary Fund loans are considered in calculating a district's legal debt limit. Loans are to be repaid in not less than five or more than 30 years, but this may be extended by the State Board. Bonds or notes of the school district are given to secure the loan.

The Literary Fund amounts to slightly over $90 million. During fiscal 1969 school loans totaled $9,943,677 or approximately 36 percent of the total new long-term bonded debt of Virginia's school districts.

WASHINGTON

Financing Methods. State grants for construction, local bond issues, and local accumulated capital outlay funds are used to finance school construction in Washington.

Local Provisions

Debt Limit. The limitation on school indebtedness is ten percent of the value of the taxable property. The legal standard for assessment of property is 50 percent of true and fair value. The 1967 Census of Governments reported that the size-weighted average ratio of assessed value to sales price of locally assessed real property was 14.7 percent.

Changes in Debt Limit. No state agency may fix the debt limit or approve a higher limit.

Initiation of Bonds. Bond issues may be initiated by the board of directors of the school district upon authorization by the voters of the district. An election must be held in which 60 percent of the qualified voters participating in the election vote in favor of the bond issue. It is also required that at least 40 percent of the voters participating in the preceding state general election must vote in this election. No referendum is required when debt outstanding is less than 1.5 percent of assessed valuation.

Length of Issue. Only serial bonds may be issued. The maximum time for which bonds may be issued is a discretionary matter to be determined by each board of directors.

State Approval. No special approval is required by the state for the sale of bonds.

Rate of Interest. Bonds are usually sold on a fixed interest basis. There is no maximum specified rate of interest. The interest rate is fixed by the boards.

Tax Rate Limitations. The maximum tax rate for all school purposes, without a vote, ranges from 5.6 mills to 14.0 mills on property valuations, depending upon the kind of district.

There is no legal limit on the local property tax which may be levied when properly authorized by the voters.

Building Reserve Fund. Local districts may levy property taxes with voter approval, for the purpose of accumulating capital outlay funds. Also, up to one-fifth of the proceeds of the local property tax of 12 mills may be used for capital outlay or accumulated for future capital outlay.

State Programs in Support of Public School Construction

State Grants. The School Building Construction Fund provides funds for school construction. Grants may range from a guaranteed floor of 20 percent up to 90 percent of approved project costs, depending upon the wealth of the school district as measured by the relationship of its adjusted assessed valuation to the state average adjusted valuation of all school districts. Participating school districts must establish need and provide local funds in an amount equivalent to at least ten percent of taxable assessed valuation.

In 1968-69, $13 million was available for this fund. Approximately 60 districts were scheduled for participation in this program.

State Purchase of Local School Bonds. The state has first option on purchase of local bond issues.

WEST VIRGINIA

Financing Methods. Local bond issues and local building reserve funds provide the funds for financing school construction in West Virginia.

Local Provisions

Debt Limit. The maximum amount of school bonds which may be issued by a local district is limited to five percent of the assessed valuation of the county. Local assessed values are required by statute to be not less than 50 percent of appraised value. The 1967 Census of Governments reported a size-weighted average ratio of locally assessed value to sales prices of real property as 37.5 percent.

Changes in Debt Limit. No state agency may fix the debt limit or approve a higher limit in special cases.

Initiation of Bond Issue. School bond issues are initiated by the local school board. All school bond issues are required to be approved at a special election by a 60 percent vote of the qualified electors who participate in the election. The West Virginia Supreme Court has ruled that bond issues require only majority vote approval. This may be appealed to the United States Supreme Court before any bonds may be sold.

Length of Issue. Only serial bonds may be issued. The maximum length of term for which bonds may be issues is 34 years.

State Approval. The Attorney General of the state must approve all bond issues after the bond election.

Rate of Interest. Bond issues are sold on a fixed interest basis. The maximum permissible interest rate is six percent. This was raised by the Legislative meeting in January, 1970 to eight percent.

Tax Rate Limitations. Tax levies for debt service are over and above those for the current school program. Tax levies as necessary for debt service are authorized with the debt approval.

Permanent Improvement Fund. Local districts may establish a reserve fund. The state does not regulate the length of term, but does specify that a maximum amount of 25 percent of the foundation school program may be accumulated. The permissible rate per year depends upon the class of property.

WISCONSIN

Financing Methods. School districts in Wisconsin may finance facilities through the use of school building reserve funds, local authorities, local general obligation bonds, a state loan program, or a combination of these methods.

Local Provisions

Debt Limit. The maximum amount of school bonds which may be issued by a local district is limited to five percent of the equalized valuation for common elementary school districts, five percent for common K-12 school districts classified as basic for school aid purposes, and five percent for Union High School districts. The limit is ten percent for K-12 school districts which are eligible to receive the highest level of aids and ten percent for city school districts. The 1967 Census of Governments reported a size-weighted ratio of locally assessed value to sales prices of real property as 49.2 percent.

Changes in Debt Limit. No provision is made for increasing debt limits which are set by the State Constitution.

Initiation of Bond Issue. School bond issues are initiated by the local school board or at annual meetings in common school districts. In common and unified school districts, all school bond issues must be approved by a majority of the qualified electors who participate in a special election held for that purpose. City district bond issues are only subject to the approval of the council of referendum.

Length of Issue. Bonds may be either serial or term. The maximum length of term for which bonds may be issued is 20 years.

State Approval. No special approval is required by the state for the sale of bonds.

Rate of Interest. The maximum permissible interest rate is eight percent.

Tax Rate Limitations. Tax levies for debt service are over and above those for the current school program. Tax levies as necessary for debt service must be authorized before bonds can be issued.

Building Reserve Fund. School boards, with voter approval, may establish a tax levy for a sinking fund to finance all current and future capital expenditures or debt.

School Building Corporations

Any school district, when authorized by a district meeting, may enter into agreements with nonprofit sharing corporations for the purpose of providing school buildings and equipment and to enable the construction, financing, and acquisition of elementary and secondary school buildings.

The district may lease the building for a term not to exceed 20 years, upon conditions approved by the board. Buildings so erected are tax exempt. The corporation may issue revenue bonds, secured by a pledge of rental revenues. Refunding bonds may be issued by the corporation to retire existing bonds and pay the cost of construction of additions or improvements to such buildings. Additional revenue bonds may be issued to pay the cost of additions or improvements.

State Programs in Support of Public School Construction

The State Trust Fund consists of the School Fund, the Normal Fund, the Agricultural College Fund, and the University Fund. The Wisconsin Constitution of 1844 provided that these funds be permanent. Interest earned on investments is expended for public schools. The funds contain approximately $44 million derived principally from the sale of lands and timber and from penal fines.

The State Trust Fund is administered by the commissioners of public lands. By statute the commissioners give preference, "so far as practicable" to loan requests from school boards. As of April 30, 1969, approximately $44 million from the fund is on loan to school districts. Current policy restricts loans to no more than $300,000 to be repaid within 20 years at an interest rate of 5.5 percent.

School boards must gain voter approval before applying for a loan. Voters must approve the levying of a property tax rate adequate to meet the annual debt service payments. Loans are granted on the basis of date of application, without regard to factors of need. Loan funds may be used for either current operation costs or capital outlay. State loans are included as a part of a school district's debt limit.

School district payments and new funds provide about $5.5 million for new loans each year. This represents about 6.8 percent of the total new long-term bonded debt of Wisconsin's school districts.

WYOMING

Financing Methods. School districts in Wyoming may finance facilities through the use of school building reserve funds, local general obligation bonds, a state loan program, or a combination of these methods.

Local Provisions

Debt Limit. Statutes limit the bonded debt of elementary districts or of secondary districts to six percent and of unit districts to ten percent of local assessed valuation. The Census of Governments reported the size-weighted average ratio of assessed value of taxable real property to sales price as 17.4 percent in 1966.

Initiation of Bond Sales. Local boards of education initiate bond sales. State approval is not required.

Length of Term. Bonds may be serial for a term up to 25 years. Refunding issues may not exceed 30 years.

Rate of Interest. There is a statutory interest rate limit of six percent on school district bonds.

Voter Approval. Bond issues must be approved by a majority of property and nonproperty owners.

Bidding. The state using resources of permanent land income bids on local bond issues at a competitive rate, but purchases few issues.

Tax Rate. Levies necessary for debt service are outside operating tax rate limitations.

Building Fund and Reserve Fund. With approval through a referendum a local district may establish a "Special Building Fund" up to four percent of assessed valuation. The Board of County Commissioners annually levys the tax necessary to raise the funds in the number of years specified and the funds are kept in the custody of the County Treasurer. The funds may be invested as permitted by law.

A local district may create a "Special Reserve Fund" of a specified amount for the purpose of purchasing or replacing specified equipment or for a depreciation reserve for equipment and school building repair. The amount budgeted in any fiscal year can not exceed ten percent of the total budget for the same fiscal year. Unexpended amounts in the special fund can be retained and carried over in the special fund.

State Loan Programs

The Emergency School Construction Act Fund was established by statute in 1957. The program is funded from the Common School Permanent Land Fund. By statute the loan fund is limited to $2 million. Administration of the program is through the Wyoming Farm Loan Board consisting of the Governor and the State Land Commissioners.

Eligibility for a loan requires evidence of extreme classroom need plus local debt to 95 percent of the legal limit. The debt qualification is met if it occurred any time during the previous three years. In practice, school boards must be unanimous in their loan request to the State Board of Education. The State Board evaluates the request and passes it on to the Wyoming Farm Loan Board which has final approval authority.

When loans are granted, funds are transferred to the district in exchange for a warranty deed to the property. Districts "buy back" the property with payments of 3.25 percent of the loan for the first ten years and then ten percent of the loan amount until repaid. Loans may be paid early. Districts are prohibited from further bonding until the loans is repaid.

Loans totaling $764,354 were outstanding in 1969 to six school districts. The State Farm Loan Board maintains a fund balance of $500,000 in case of catastrophe. No new loans were committed in 1968-69.

APPENDIX B

Projections of State and Local Revenues and Expenditures and Federal Grants

Projections of state and local revenues and expenditures and Federal grants were developed by means of least squares regression, using Gross National Product as the independent variable. Figures 3.5, 3.6, and 3.7 show the relationships between these variables. The equations are as follows:

(1) $Y_1 = -.842 + 0.0945\ X \quad R^2 = 0.965$

(2) $Y_2 = -.700 + 0.0837\ X \quad R^2 = 0.980$

(3) $Y_3 = -.232 + 0.0127\ X \quad R^2 = 0.943$

Where:

Y_1 = State and local expenditures minus school capital outlay.

Y_2 = State and local revenues minus Federal grants.

Y_3 = Federal grants to state and local governments.

X = Gross national product.

No test for autocorrelation was made as it is obvious such would be the case. In this analysis least squares regression was used only as a means of fitting the trend line of a specific relationship.

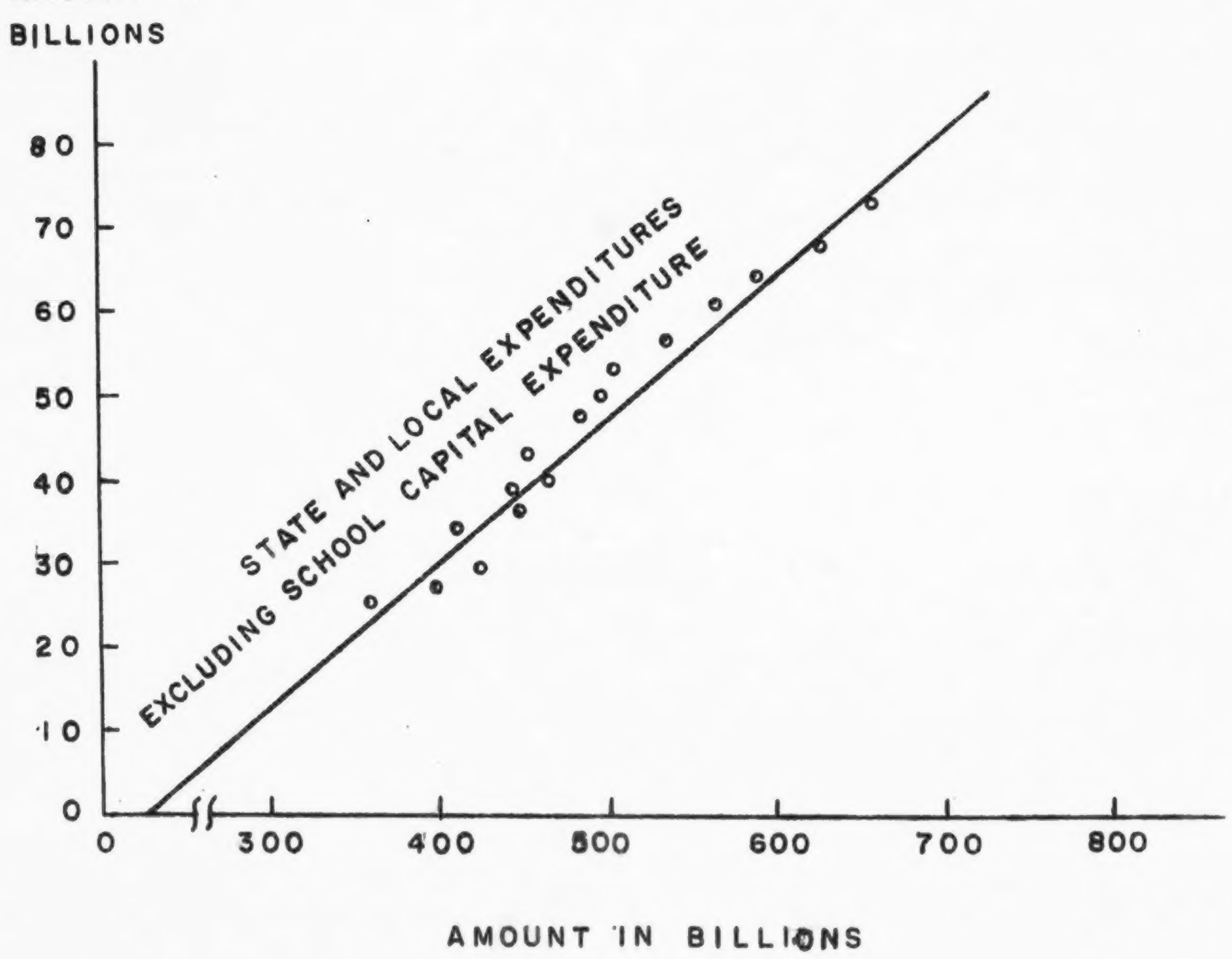

FIGURE 3. 5. GROSS NATIONAL PRODUCT-STATE AND LOCAL EXPENDITURES EXCLUDING SCHOOL CAPITAL OUTLAYS, 1950-1966 (1958 DOLLARS)

SOURCE: UNITED STATES DEPARTMENT OF COMMERCE

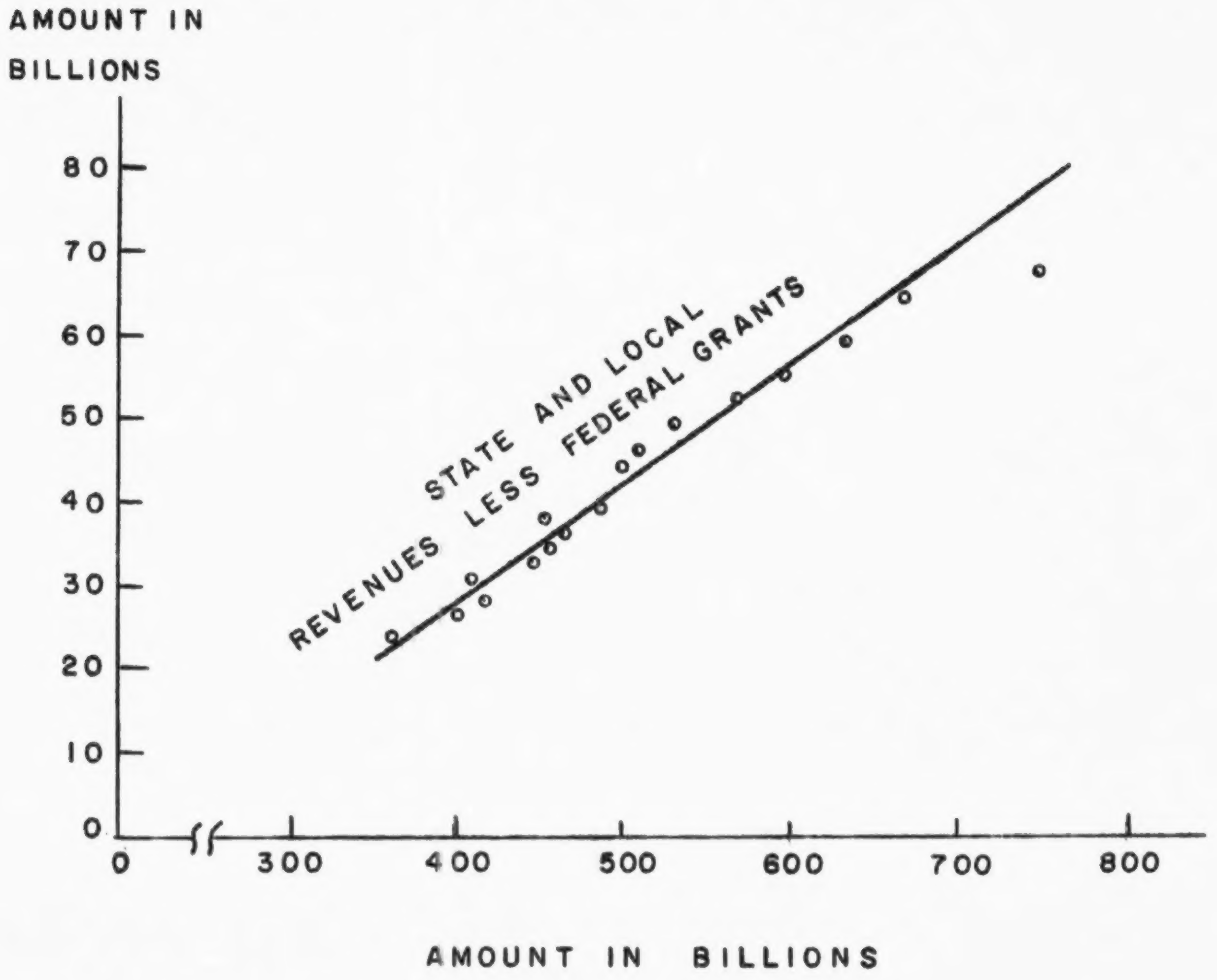

FIGURE 3.6. GROSS NATIONAL PRODUCT-STATE AND LOCAL REVENUES EXCLUDING FEDERAL GRANTS, 1950-1966 (1958 DOLLARS)

SOURCE: UNITED STATES DEPARTMENT OF COMMERCE

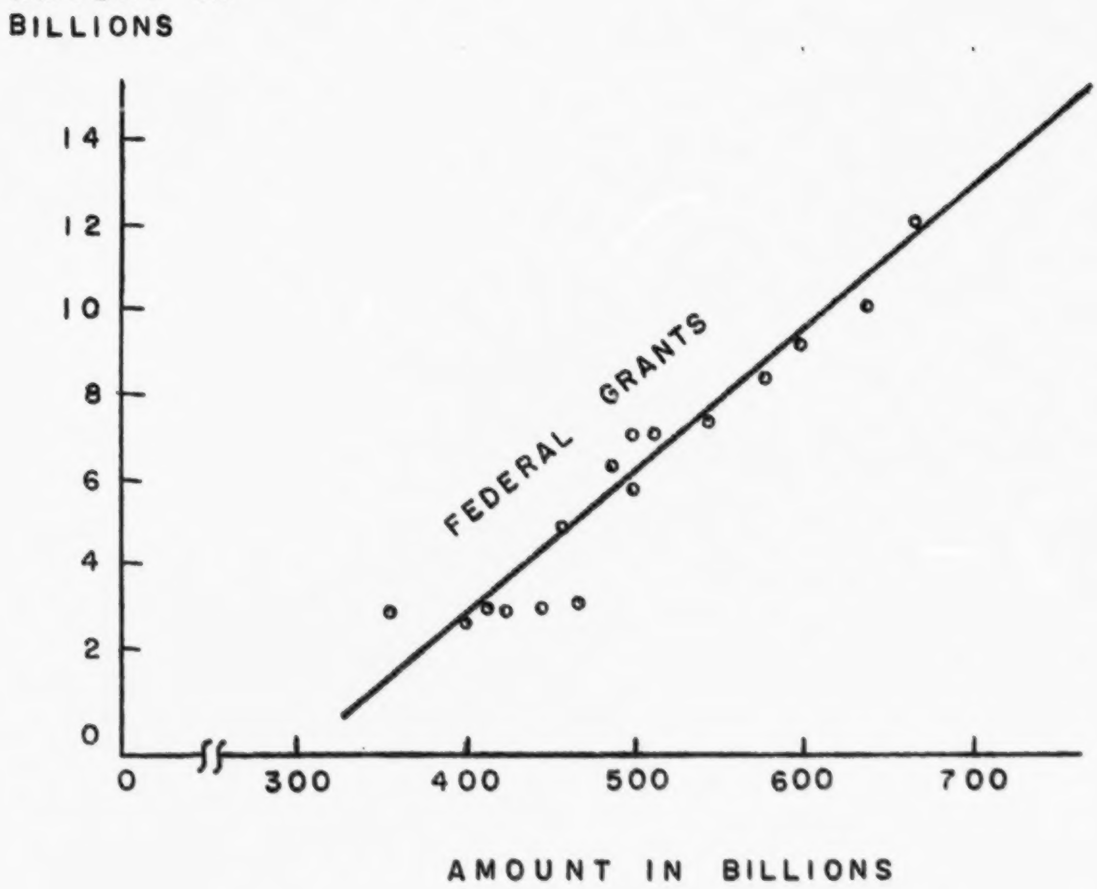

FIGURE 3.7. GROSS NATIONAL PRODUCT-FEDERAL GRANTS (1958 DOLLARS)

SOURCE: UNITED STATES DEPARTMENT OF COMMERCE